YOUNG MAN'S MONEY

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A FINANCIAL STUDY OF
THE LAST TEN YEARS

BY

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TO

FREDRIC WARBURG

in token of friendship and of respect for his courage and vision

With every passing year I become more confident that humanity is moving forward to a practical application of the teachings of Christianity as they affect the individual lives of men and women.—MR. ROOSEVELT (*at the National Conference of Catholic Charities*).

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PREFACE

Few will dispute that the coming of Mr. Roosevelt to the Presidency of the United States of America has effected changes in that country and throughout the world of a revolutionary character. What is the "Roosevelt revolution"? What influence is it likely to exert upon Europe and upon the lives of all of us? What, again, were the special circumstances out of which it emerged? I have tried in the pages which follow to answer these questions because I believe that an understanding of what is happening on the other side of the Atlantic is indispensable to anyone, man or woman, who wishes to play a part in the rebuilding of our broken world. England does not, perhaps, know enough about American policy; it is a calamity, seeing that England and America united could achieve mightily for humanity.

The English people, in these last ten bitter years, has displayed a courage, a heroism, and a readiness to make sacrifice in the noblest tradition of the race. Nor has any people watched with a more profound emotion of sympathy the gallant enterprise of that

great-hearted gentleman, the President of the United States. More knowledge, therefore, is bound to lead to closer friendship and co-operation.

I wish to take this opportunity of thanking those of my friends without whose help, to me personally, this book could not have been written, especially my friend, the Rev. Samuel Ford, Vicar of All Souls Church, Loudoun Road, London, from whom I learned what Christianity is, and my friend Mr. Featherstone Hammond, from whom I learned the truth about that golden age of men which is called "Christendom" and which, as I believe, is returning as a new World Power in succession to the World Power of Money.

I wish also to thank my dear wife for her help in the making of the book and for her creation of the environment in which it was written.

R. McNair Wilson.

London.
27th September, 1934.

Chapter I

CHALLENGE

In the latter part of the year 1924 men and women throughout the world believed that a happier age was in process of birth. The War had been ended six years before ; the League of Nations, although the United States of America had not joined it, was an established fact and was, daily, growing in prestige and influence. Hatred of war and love of peace were strong feelings in every heart.

The material conditions of the world, too, were improving rapidly. The ups and downs which had characterized the after-War period seemed to have given place to a steady development of trade. Employment was increasing ; new enterprise was everywhere in evidence ; plans for reconstruction and restoration were the chief concern of governments and peoples.

Prosperity, indeed, was so widely distributed that no country except Russia lacked its share. But the most prosperous country of all, certainly, was the United States of America where, as was announced

to the world, a new economic system was being built up. The world is proverbially uninterested in economic systems and few people took the trouble to find out exactly what was happening in America. Everybody, however, heard stories of new, fabulous wealth and swiftly rising standards of living. In course of time the slogan of Mr. Ford—namely, " High Wages pay "—crossed the Atlantic and caused a flutter of excitement which, however, was soon extinguished by the reminder that America, as a self-contained country with great resources in her own soil, occupied a wholly different position from Great Britain. America, it was pointed out, need import little or nothing—only tin and rubber ; England's daily bread comes to her across the sea.

With the memory of the German submarine campign fresh in mind, Englishmen did not dispute this statement. They looked wistfully at Uncle Sam's increasing abundance but allowed themselves no feelings of envy. It did occur to them, however, that so prosperous a neighbour might, reasonably, be willing to deal leniently with his debtors. England had promised to pay her War Debt to America ; she meant to pay ; but she felt some disappointment, nevertheless, that

payment was being exacted without, as she believed, due consideration of the great burdens she had borne during the War.

A further cause of disappointment was America's obstinate refusal to accept payment in goods. The ordinary citizen was at a loss to explain this obstinacy and argued that it must be due to a wish on the other side of the Atlantic to accumulate a large hoard of gold, a policy which, as he had been told, was both selfish and short-sighted. He looked with satisfaction, therefore, at the rising value of the pound sterling which, as he assured himself, was reducing his debt to America and enabling " the pound to look the dollar in the face ".

The closing months of the year 1924 witnessed many public expressions of this satisfaction. The prospect that it would be possible to return to the gold standard was viewed with pride, especially since return, as was confidently declared, would take place at the old parity of \$4.86⅔ to the £.

This hopeful attitude was not, however, characteristic of the financial authorities in any of the world's capitals. On the contrary these financial authorities had, during several years, watched what they called " the American experiment " with grave and growing misgiving. For it was not only a new

economic system which America was instituting but also a new monetary system.

The essence of this new monetary system was control of the general level of prices by the Government of the United States. In other countries, and notably in England, prices had fallen with the result that it had been necessary to reduce wages and cut down standards of living. These applications of what was good-naturedly spoken of as the "economy axe" had naturally provoked opposition from those whose incomes or livelihood was threatened and England, in consequence, had suffered, while the process was going on, from a prolonged series of strikes and stoppages. Her people, at the same time, had endured a great deal of hardship and anxiety, though the Unemployment Insurance Fund had, to a large extent, tempered the economic blast. Americans were determined, if possible, to avoid a similar disaster in their own country, and since they had observed that it was the fall in prices which had caused the dislocation in England, they became eager supporters of measures designed to keep their price-level stable.

Among these measures the tariff on foreign goods occupied an important place. If we open our ports to cheap European goods,

it was argued, our home price-level is bound to fall. Then we, too, will be compelled to cut down wages and dismiss workpeople. We shall have an unemployment problem similar to England's problem and shall be forced to set up a " dole ". The tariff therefore was raised, and the American manufacturer was enabled, in consequence, to recover his costs in his home market.

In other words, he could count on clearing his expenses by means of sales at home and so on being free to sell his surplus abroad at very low prices. Everything sold abroad represented profit, no matter at what price it was sold. This is the system known as dumping. It is a system which other manufacturing countries find very difficult to endure unless they too possess a protected home market.

At the same time, therefore, as Englishmen were discussing the proposed return to the gold standard, as a means of reducing their debts, they were discussing the question of Free Trade or Tariff Reform. Why, it was argued, should we allow the Americans, who will buy none of our goods and who insist on being paid in gold, to flood our markets with their ridiculously cheap products and so throw our workpeople out of their jobs ?

If we had a tariff, we too could engage in dumping.

This argument was reinforced by another which, however, was understood only by persons engaged in the practice of finance. Germany in 1924 was paying large sums in Reparations to the French and to ourselves. This money was obtained, in the first instance, by selling goods in the English market—because the French market, like the American market, was rigidly protected. The Germans also dumped their goods in England. Thus, they acquired pounds, shillings, and pence with which to pay their debts, and England, to the grave disadvantage of her industry and to the sore affliction of her working class, became the debt-collector of the whole world. She was compelled to make further cuts in prices and wages in order to retain what remained of her home and foreign trade.

This uneasy position of affairs was explained to the Americans, but the explanation produced no result. If we take down our tariff, the authorities in Washington argued, you and the Germans, and indeed all the nations of Europe, will flood our markets with your cheap goods—the produce of your cheap labour. We cannot allow that. Indeed, what you are really asking us to do is to allow

our level of prices to slip down to your level, whereas our determination is to keep our level of prices exactly where it is.

The financial authorities in America, as well as those in Europe, heard this declaration with profound uneasiness, because, unlike the political and industrial leaders, they knew that the credit system of money, on which the world's trade and industry rested, cannot be conducted if power to move the price-level upwards and downwards is withheld from them.

The reason is simple: under the credit system the money of the world consists not of gold but of the promises of bankers to pay that metal on demand. There is, relatively speaking, very little gold in the world—only about £2,500,000,000 worth; whereas the world needs about £60,000,000,000 of money to carry on its business. Consequently every promise to pay £1 is "backed" by only £$\frac{1}{30}$th worth of gold—every golden pound, in other words, carries on its back some £30 worth of promises to pay it.[1]

It is obvious that such a system cannot be worked unless people refrain from asking for

[1] Central banks create three notes for each unit of gold held by them. Each note is made to carry ten promises to pay it when it comes into the hands of ordinary deposit bankers. $3 \times 10 = 30$.

gold, because, if they do not refrain, their demands cannot possibly be satisfied. The bankers' promises are not meant to be redeemed except to the small extent necessary to supply pocket money—petty cash.

But if any one country in the world has a lower level of prices than its neighbours, demands for the redemption of the promise-money will inevitably be made, because everyone will wish to buy from that country and nobody will wish to sell to it. Its merchants, in consequence, will possess claims against other countries that they will not desire to satisfy by importing goods (seeing that the same goods can be had more cheaply at home). They will ask for gold in satisfaction of these claims.

The same thing will occur if a country's markets are protected by a high tariff wall. Goods cannot be imported into that country and so the exporters will ask for gold. A flow of gold will set towards the protected country which will become glutted with the metal while the rest of the world is suffering from an acute want of it.

In either case the credit or promise-money system will break down, sooner or later—when the country with the low prices or the high tariff possesses all the gold in the world

and the other countries possess none. Consequently it was arranged, when the credit system was being evolved, that a gain of gold by any country should be followed immediately by an increase in the amount of promise-money circulating in that country. If, for example, America, owing to her tariff, became entitled to receive large quantities of gold it was expected that her bankers would at once put into circulation promise-money equivalent to thirty times the amount of the new gold. The effect would be a great increase in the quantity of money without any corresponding increase in the quantity of goods. In other words, the effect would be the same as is observed when a crowd of new buyers flock into an auction sale-room. Prices would be forced up sharply.

America now, by reason of her high prices, would not be able to compete in foreign markets and so would not be able to acquire new claims to gold. On the contrary, her high domestic prices would tempt her people to buy abroad, even across the tariff wall. Gold would flow out to pay for these purchases and so the countries which had lost gold to America would regain it.

It was urged upon America that unless she conformed to these rules and allowed her

bankers to issue new promise-money when gold reached New York from abroad, and to call back promise-money when, and if, gold flowed out, the whole structure of the credit system would be destroyed. But once again the financial authorities were told that while, no doubt, the operations of the gold standard were necessary to the efficient working of the credit system, America was less concerned about the credit system than about her own people, their standard of living, their wages and their price-level.

What was desired, it was repeated from Washington, was not the smooth working of an international system, but the welfare of the American people. " If we are to allow our prices to move upwards simply because gold has come into the country, and to move downwards simply because gold has flowed out, then it is obvious that our prices, our wages, and all our standards of living will be determined not by our own needs and wishes but by those who direct and control the movements of gold."

These arguments were continued during many months. They revealed a sharp cleavage of opinion between the financial authorities in America—as well as elsewhere—and the American Government. The

financiers' case was that, since America professed to be on the gold standard and to be working the gold standard, she had better renounce practices the only effect of which could be the ruin of the standard. The American Government's case was that a sovereign people is entitled to order its own affairs and to effect such modifications in economic systems as may seem good to it. What, apparently, the American Government did not fully realize was that it was endeavouring to change the character of gold itself.

This can be understood if it is borne in mind that two great classes or kinds of money have, at one time or another, been made use of by men—namely treasure-money and ticket-money. The quality that appears to distinguish treasure-money is its own, inherent value. The gold coin, being made of gold, is worth its weight in gold. Consequently its possessor does not need to worry about its value. Its value lies within itself, in its own substance, and cannot be separated from it. The value of ticket-money on the contrary, depends solely on what it will buy.

Curiously enough the system of credit or promise-money is a treasure-money system. Each promise-to-pay is a promise to pay gold

and, in theory, each promise can be fulfilled. Thus—again in theory—the holder of credit money can go to his bank, present his promise and ask for gold in exchange for it. So long as his bank continues to redeem its promises in gold, he is therefore the possessor of treasure-money, or rather of good claims upon treasure-money. The holder of ticket-money is not in this position, for his ticket *is* money and cannot therefore be changed into anything else. When a country abandons the gold standard all its money becomes, automatically, ticket-money, seeing that it cannot be changed into gold.

At first sight this difference seems to be an exceedingly important one, so much so that any sacrifice which will maintain the "convertibility" of money into treasure, appears to be worth making. But the longer the subject is studied the more difficult does it become to maintain this view. The value of treasure-money on a desert island, for example, is no higher than that of ticket-money. Nor can treasure-money retain its value in circumstances in which food is scarce and gold plentiful. Men do not eat gold nor clothe themselves nor shelter themselves with the metal. Treasure-money is valuable, consequently, only for what it will *buy*. Like ticket-money it is a claim on goods. There

is no essential difference between them on this count.

But it would be a mistake, nevertheless, to assume that, because what seems to be an obvious difference is unreal, no real difference in fact exists. On the contrary, treasure-money possesses one quality which ticket-money does not possess : it can be buried, or hoarded, or put away in a stocking, and when so removed from circulation it is *irreplaceable.* The search for gold in mines and rivers and the bed of the ocean is carried on *because gold is scarce* and because, once lost, it cannot be replaced by any substitute.

Treasure-money, then, gives to its possessor the power to bury or hoard it knowing that it cannot be replaced, and this is true, also, of the promises to pay treasure-money, for these promises bear, always, a fixed relationship to the treasure itself. As has been said, every golden pound carries on its back some thirty promises to pay it, which thirty promises are by courtesy as it were also called " pounds ". Consequently, if one golden pound is hoarded, thirty promise-pounds (thirty pounds' worth of credit) automatically go out of existence and disappear from the world's markets. In the same way the hoarding of the thirty promise-pounds (for example, in a bank account) takes them off the market because they cannot

be replaced unless a new golden pound is available. The gold is irreplaceable because it is treasure, a *scarce* substance; the promises to pay the gold are irreplaceable because they are promises to pay a scarce substance, and cannot therefore be increased in number indefinitely and without relation to the gold-holding of the banks. If, for instance, a bank lends thirty promises to pay a golden sovereign in its possession and the borrower chooses to leave twenty of these promise pounds lying in the bank, the bank cannot replace the hoarded promises by twenty new promises. If it did that it would be making fifty promises to pay its golden sovereign instead of thirty promises and experience has shown that banks which issue promise-money on so lavish a scale soon have to close their doors.

Treasure-money, then, and its offspring, promise-money, are as scarce as the gold of which they are made or upon which they are based. But this is not the case with ticket-money. So long as a printing-press is available a new supply of ticket-money can be produced, to replace a supply which has been hoarded or lost. (Nor is it the case when gold is so plentiful that it can be used as if it had no treasure-value.)

This fact is so well known that many people maintain that irreplaceable money is the only

safe money. How, they argue, can money which any printer can produce in unlimited quantities ever be sound? Nor are they usually satisfied with the answer that the soundness of money depends on what it will buy and that consequently, if the level of prices is kept steady, ticket-money or replaceable money cannot lose its value, for they have been educated from childhood to believe that price-control is impossible.

This is a very remarkable idea, seeing that it is notorious that prices are controlled by supply and demand and that demand is only another name for the amount of money in the market. Anybody who is in a position to send buyers into a market can raise prices in that market and anybody who is in a position to remove buyers from a market can cause prices in that market to fall. In other words, the power to hoard and the power to bring money out of hoards confers, *so long as money is irreplaceable,* the power to decrease or to increase demand for goods and thus to change the level of prices. Treasure-money gives its owners the power to change the level of prices because, and only because, it cannot be replaced. And since treasure-money, in these days, means, for all practical purposes, the promises-to-pay that treasure-money which the banks issue to their customers in the form of loans,

the control of the price-level is vested permanently in the banking system.

It does not need much consideration to show that control of the price-level is, in fact, the power of life and death over all producers. Whatever view may be held about the way in which the financial authorities have discharged their trust to their fellows no doubt can exist about the absolute character of the power exercised by them not in one country only but in all countries. That power, as has been said, was based on the irreplaceable nature of money. It was consequently directly challenged by a system having, as its object, a stable level of prices because the price-level cannot be kept stable unless money which has been removed from markets *can be* replaced. It is of the essence of the system of keeping prices stable that, if and when money is removed from circulation, it shall be replaced immediately in circulation. Ticket-money, it is true, like treasure-money, can be removed from circulation. Unlike treasure-money, it can be replaced at once so that no fall in the price-level takes place. Again, like treasure-money it can be brought into markets by its owners. But unlike treasure-money, it cannot, in such circumstances, cause prices to rise, for the government, being pledged to keep prices stable, will immediately withdraw

from the markets a quantity of money corresponding to the quantity brought in.

The American Government, therefore, had embarked on a policy which, if successful, must take away from the financial authorities in America, and later throughout the world, the whole of their power and must, if continued long enough, reduce them to the level of book-keepers. Moreover, and this is the important point, it was actually proposing *to use gold itself as replaceable or ticket money.* So enormous was the quantity of gold in America that gold, in that land, had ceased to be scarce and so had ceased to be irreplaceable. No matter how much gold (or gold money) might be removed from the markets, there was enough in reserve to make replacement easy and so to make it possible to maintain the price-level. The American Government, in short, was using its position as the world's creditor to make gold, *so far as America was concerned,* a base metal and thus to take from it its quality of preciousness. Gold in America had ceased to be treasure and became a mere ticket. Unhappily for America, however, *she was a seller of goods to the rest of the world,* and in the rest of the world gold remained gold, a scarce and very precious metal.

Chapter II

THE AMERICAN SEE-SAW

It should be observed that England's return to the gold standard in 1925, and so to treasure-money, corresponded in point of time with America's attempt to set up a system of control of the domestic price-level. This very remarkable coincidence has been overlooked because, in 1925, America was herself on the gold standard and certainly had no thought of ever abandoning it.

The world's financial authorities, consequently, complained justly when they said that America was following simultaneously two policies of a mutually destructive kind, so far as the world in general was concerned. She was on the one hand trying to stabilize her price-level, which operation demands the use of ticket or replaceable money; on the other hand she was determined to use treasure-money gold, to achieve her stabilization at a moment when all the world was returning to the gold standard. Obviously, therefore, dislocations and distress lay ahead of her.

Nor was it likely that distress would be

confined to America seeing that the movement back to the gold standard and irreplaceable money in Europe, and throughout the rest of the world, showed plainly that there was nowhere, except in America, any disposition to set up a new monetary system. Europe, indeed, was headed for a policy the avowed object of which was a fall in the price-level, which, as it was contended, had risen too far during the War. Thus the fixed price-level in America was about to be subjected to the influence of the falling price-level everywhere else.

A great deal of ill-instructed criticism has been directed against those who were responsible for the decision to reduce price-levels and, in consequence, the real character of a struggle destined to shake the world has been misunderstood. The decision was taken in order to defend the existing monetary system against the American system and those who took it were entitled to say that no other defence was possible in the circumstances. For America, by reason of the War Debts owed to her, had a claim on nearly the whole of the world's supply of gold. In addition her high tariff, which effectually excluded foreign goods from her markets, gave her a claim to be paid in gold for her exports of wheat,

cotton, tobacco, and other farm products. Again, she had lent a great deal of money to Germany and other countries. The interest on this money constituted a further claim upon the world's gold stock. It is obvious that if America had been allowed to absorb all the gold owing to her, gold would have vanished completely from the rest of the universe, taking with it, in its passage, the credit system of promises to pay the gold.

In his Budget Speech of the year 1925, the Chancellor of the Exchequer, Mr. Winston Churchill, announced that England was about to return to the gold standard and this decision was immediately put into practice with the approval, as it seemed, of the whole nation. The pound was now worth the same quantity of gold as it had been worth in 1914, before the outbreak of war. The effect was startling. Labour troubles began all over Great Britain and there were threats, almost immediately, of a general strike.

The reason for this upheaval is quite simple. International trade is conducted not with pounds or dollars or francs or marks but with gold. On the other hand the seller of any goods lives in one or other of the world's countries and consequently pays his expenses and measures his profit or loss in one or other

of the world's currencies. Makers and sellers of goods for export are concerned, therefore, with the value in terms of gold of the money they use. If that money has a low value in terms of gold they can charge a low price in foreign markets ; if it has a high value they must charge a high price. In other words they must ask for as much gold as they are distributing in the form of wages and other costs.

England's return to the gold standard made the pound, as has been said, more valuable in terms of gold. It filled the pound fuller with gold. Consequently English exporters found themselves in the position of having to raise their prices. But that was impossible in face of German and French competition. The only alternative was to reduce wages.

In a sense such reduction was justified because wages, by reason of the return to gold, had become more valuable—in terms of gold. But working men and women do not use their wages to buy gold. They buy food and the prices of food remained, so far as they could see, pretty much where they had always been. Consequently working men and women resisted the "cuts" which their masters were compelled to impose on them and convinced themselves, erroneously, that

their masters were cruel and hard-hearted. A bitter spirit began to manifest itself in all dealings between Capital and Labour and this spirit soon flowed over into the political sphere. Statesmen and politicians of all parties delivered anxious speeches in which they showed clearly that they had no idea that the existing troubles were connected in any way with the return to the gold standard.

During the winter of 1925–6 bitterness increased as cuts in wages were carried into effect. Nor was the spectacle of America's prosperity, which remained undimmed, calculated to remove the impression that something had gone wrong with England. The American Government was still as firmly convinced as ever that its policy was the right one. It continued to receive great quantities of gold which it bestowed in the vaults of New York. It continued, in spite of this inflow of treasure, to maintain a stable level of prices. And it continued to earn the approval of a nation which could scarcely believe in its own prosperity.

Meanwhile the power to buy was ebbing slowly away from the European market by reason of the great fall in wages. Nobody, except the world's financial authorities, seems to have been aware that the tide of

buying-power was ebbing; the world's financial authorities could not but be aware because, every half-year, on 15th June and 15th December, they were sending across the Atlantic large quantities of the bar-gold in which America had chosen to receive her War Debt payments—the bar-gold which now, since the return to the gold standard, had become the base and foundation of Europe's money.

Every bar of that gold, as has been said, and must be repeated, had, while it remained in Europe, carried on its back promises to pay it equivalent to thirty times its value. As soon as it was taken from its resting place in the European vaults and put aboard ship, these promises to pay had to be wiped out just as nestlings are destroyed when the mother-bird perishes. The flight of these golden mother-birds to the United States, therefore, brought about a fearful slaughter of the innocents in Europe. In technical language there was a sharp "restriction of credit". The Central, or Bankers', banks withdrew their loans of promise-money from the ordinary banks, which were thus in their turn compelled to withdraw their loans from the public. Thus the American claim for gold acted as a huge suction-pump on the

European treasure-money system. At each fresh throb of the pump, on 15th June and 15th December, Europe was bereft of a mass of buying-power and the European market further contracted.

Prices, therefore, fell in the European markets and the price-level as a whole slipped down. The American price-level, on the contrary, remained stable as before. The incoming gold was not allowed to affect the price-level; that is to say, it was not allowed to become the "mother" of any promise-dollars. On the contrary, it was hoarded away in vaults as a store from which money could be drawn to replace any money taken out of the markets and so to maintain the price-level.

At first sight it might appear that Europe alone was the sufferer from this remarkable state of affairs. But such a conclusion is seen to be erroneous the moment it is remembered that, in 1926, America was a very great exporter to Europe of farm goods, wheat and cotton and tobacco. These goods sell at what are called "world prices", that is to say the prices obtaining in Europe and notably in England. Consequently a fall in European or "world" prices was bound, sooner or later, to exert influence on the

In 1927 there were distinct signs that such influence was being exerted. For, though the American price-level *as a whole* remained stable, the prices of farm goods were sagging. The authorities at Washington became seriously alarmed and gave ear to the arguments of the world's bankers. These arguments were as follows :—

"By draining gold out of Europe you are destroying the markets on which you depend for the sale of your surplus stocks of farm goods. You had better therefore stop and reconsider your policy before it is too late. If you wish to receive payment of your debts without injuring yourselves in the process, you must take down your tariffs and accept payment in goods and services. In other words you must either abandon the idea of maintaining a fixed price-level or abandon the idea of being paid War Debts or any other kind of debts."

There is no need to quarrel, as many have done, with this plain statement of fact. America obviously did depend upon the European market ; and the European market, thanks to the general return to the gold standard, obviously did depend upon the quantities of gold held by the European central banks. The American authorities admitted all this. What, however, they could

not bring themselves to do was to sacrifice the standard of living of the American people for the sake of the smooth-working of the international gold standard. They looked about, therefore, for some means by which the flow of gold to New York could be reduced without upsetting the price-level or relinquishing the debts—which Congress looked upon as an important asset.

The outcome of these deliberations was the removal from the New York vaults of some of the hoarded and hidden gold, which was then allowed to perform its function of "mothering" a large brood of new promise-money. This promise-money or credit would, in Europe, have caused a sharp rise of prices as soon as it reached the markets (demand would have been increased); but in America the new money could not reach the markets because the price-level was being kept stable. In fact it did not enter the markets at all. It was used on the contrary by its creators, the banks, to buy British War Loan and other foreign bonds. A flood of gold began to pour out of America to pay for the foreign bonds which the American bankers were acquiring.

"Gold," says the MacMillan *Report*, "flowed out and by June, 1928, the United States had

lost $600,000,000 of gold, the gold stock on 23rd June, 1928, being $4,099,000,000 against $4,700,000,000 on 16th May, 1927." [1]

This outgoing flood reversed the current of the incoming flood with the result that the European central banks found their stocks rising and were able to issue increased quantities of promise-money to their customers. As a consequence of this increase of buying-power there was a small upturn in European prices and so in business and industrial activity.

But the outflow of gold from America was necessarily a temporary phenomenon whereas the inflow of gold into America was permanent so long as the United States insisted on maintaining its tariff and excluding foreign goods. Early in the autumn of 1928 the American banks began to restrict their buying of European bonds, which had risen sharply in price. The effect was to reverse once more the direction of the golden tide and to bring to an end the short period of credit expansion in Europe. Instead, a fresh contraction of credit began and the fall of prices was resumed. The American farmer found himself getting less and less for the products which he sent overseas.

[1] Committee on Finance and Industry *Report*, p. 71.

The American price-level, however, remained stable as before. This price-level is expressed in an index derived from 784 different commodities. Such an index resembles to some extent a see-saw. So long as it is kept stable, downward movements in the prices of any of its component goods must produce corresponding upward movements in other goods. The index, in short, is the log on which the see-saw moves. On one end of the see-saw are the farm products ; on the other end the manufactured articles and the heavy goods.

The American farmer, as has been said, was dependent on the European market for the disposal of his surplus wheat, cotton, and tobacco. As prices in Europe were falling, by reason of the shipments of gold to America, the prices of these surplus products fell and brought down with them the home prices. Thus, that end of the see-saw of the American price-level on which farm products were set began to descend and so to force up the opposite end, on which were set the manufactured articles and the heavy goods.

American manufacturers and industrialists in consequence found the prices of their goods rising and assumed, naturally enough, that a boom in trade was about to begin. Most of

them were unaware of the see-saw character of the price-index and saw no connection, therefore, between the sagging prices of wheat and cotton and their own lively quotations. They began to expand business and open up new factories and workshops. The tariff on foreign goods was actually increased and everyone felt that the new economic policy had shown itself a triumphant success.

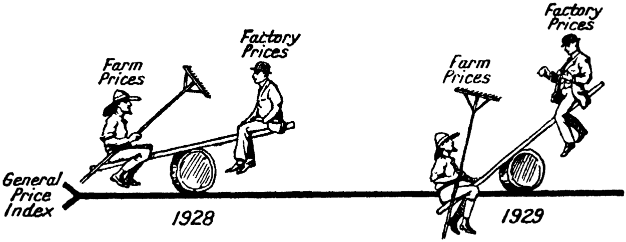

FIG. I.—The cause of the American boom. Note that the general level of prices remains unaffected.

Big profits were earned by reason of the rising factory prices and the shares of the companies concerned bounded up. Everyone with a dollar to spare began to speculate on the stock exchange or in such commodities as copper, cement, bricks, tin, and steel. Nor was this speculation confined to America. Europeans, seeing what was going on, began to buy American shares in large quantities. The purchase-money for these swelled the tide

of gold flowing to New York and so reduced still further the European price-level—and with it the prices of farm goods in America. The farmers' end of the American see-saw sank down to a new low level while the manufacturers' and industrialists' end rose to new heights. Thus the boom nourished itself.

* * * * *

To recapitulate: the American general price-level (as expressed in the complete index) remained stable but the prices of farm products were falling sharply and so—because of the fixed general level of prices—forcing up the prices of factory products. At the moment when the industrialist and manufacturer saw a great new era of prosperity opening before them, the foundation of all prosperity—namely the buying power of the farmer—was being destroyed. Indeed, by strange and bitter irony, the ruin of the real prosperity was the cause of the false. How extensive was the movement of the price see-saw may be gathered from the following description in the MacMillan *Report* :—

"At the same time the market value of securities (in America) increased in an even greater proportion than profits, the process . . . being greatly assisted . . . by the belief

that a ' new era ' had dawned in the United States due to mass production and rising money wages . . . (securities were selling) at 30 to 40 years' purchase or even more without upsetting public opinion, and they did in fact sell at such values."

"Between 23rd June, 1928, and 11th January, 1929, the gold stock (of the United States) rose by $7,000,000 ; between that (last) date and 25th October, 1929, it increased by a further $282,000,000."[1]

This rush of gold completed the ruin of the American farmer, who ceased, more or less, to be able to buy manufactured goods at the very high prices at which they were being offered for sale. Suddenly, in consequence, the "bottom fell out of the boom" and the great Wall Street crash of October, 1929, took place. The see-saw had broken. Both ends now fell together with the log on which they rested and the American plan of a stable level of prices was on the scrap-heap.

[1] Committee on Finance and Industry, *Report*, p. 71.

Chapter III

SAMSON

It was now everywhere believed that America would renounce her policy and lower her tariff, thus enabling the system of irreplaceable treasure-money to be worked throughout the world. But, though dazed and discomfited by the ruin which surrounded her, America refused to do anything of the sort.

The surprise which this decision caused in international financial circles was scarcely less than had been the surprise caused by the Wall Street crash in America. Was it possible that, with the spectacle of calamity before their eyes, the authorities in Washington really meant to try to set the Humpty-Dumpty of a stabilized price-level up again ?

The question was asked in incredulity ; it was answered with dogged persistence : " If we lower our tariff you will flood our markets with your cheap goods and our people will be forced to accept a lower standard of living."

America at this period of her history recalls irresistibly the blinded and shorn Samson in

the hands of his enemies. She possessed, and knew that she possessed, a great strength; but the power to use that strength had been taken from her so that confusion and bewilderment were fallen on her mind. Why had her prosperity been extinguished? She was aware, dimly, of a power, secret and terrible, against the operations of which neither courage nor resource were of avail.

America's tragedy at this moment was lack of knowledge. Few, if any, of her leaders understood the mechanism of treasure-money—the attempt to conduct two separate, distinct, and mutually destructive systems simultaneously is proof enough of that. She had stumbled therefore into a catastrophe which, from the first, had awaited her and which, had her policy been directed by men possessed of even a modicum of instruction, she might easily have avoided. A fixed price-level, one side or element of which lies outside of domestic control, is, clearly, a menace rather than an advantage. Only a single safe course had, in fact, been open to America—namely to reduce her production of farm goods to a point at which domestic demand would have absorbed the whole of the supply. Had that been done the influence of world prices on the home market

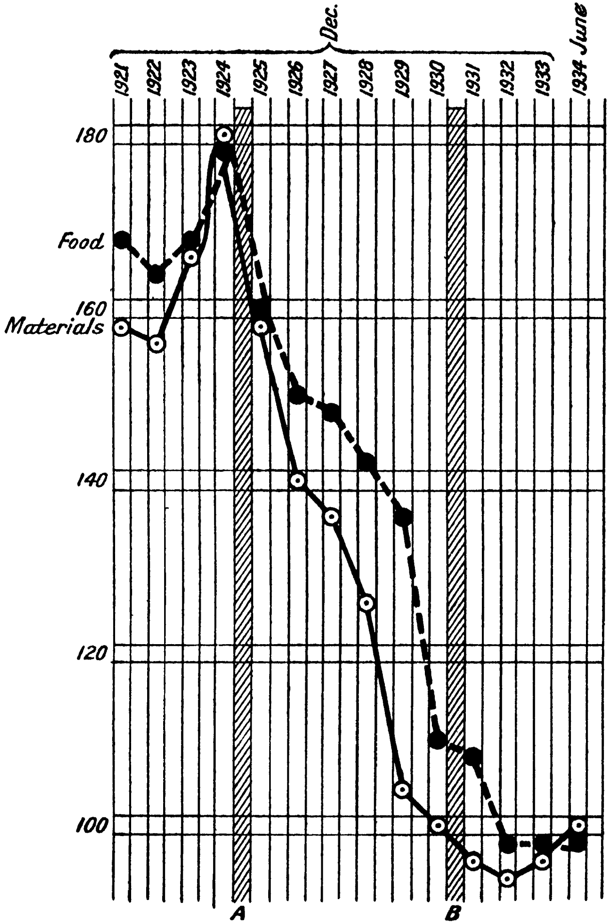

FIGURE 2. English Prices: *The Times* Index 1913=100.

The hatched vertical lines A–B show where England returned to and left the gold standard.

would have been eliminated and the movements of gold, in consequence, rendered harmless. The see-saw, in other words, could not have been tilted against the farmer.

As things were, the Wall Street crash contributed to the process of disintegration, by putting an end to business activity. Employers, with huge unsold stocks of goods on their hands, lost their nerve and began to dismiss their workpeople and close their factories. Thus, a further reduction in buying-power took place, this time in the home market. America was now joined to the European " toboggan "—as it was bitterly called. That " toboggan ", as a glance at Fig. 2 will show, was so steep that it is doubtful if there is any parallel to it in history. The value of the world's goods, as measured in money, was, everywhere, being cut in half.

It is not, even yet, widely enough known that when the value of goods is cut in half the value of all debts is doubled. The truth of this statement becomes obvious, however, when it is remembered that men pay their debts by selling the fruits of their labour. If these fruits fetch smaller prices to-day than they fetched yesterday, then more of them must be given up to-day than yesterday in payment of any given sum. Thus, a farmer

is worse off when he must part with a hundred sheep in order to pay his rent than when he can pay the same rent with fifty sheep.

In other words the "toboggan" was a transference, throughout the whole world, of all kinds of goods from the possession of the makers of these goods to the possession of their creditors. No payment of any kind was offered for this colossal body of uncovenanted wealth. The creditors got it, not because they had earned it by the performance of some special service to the debtors but solely because prices had fallen.

Thus the wealth and riches of the whole earth changed hands in a year or two by reason of the greatest redistribution in the records of men. Farmers and manufacturers were dispossessed overnight as though armed freebooters had marched against them. The Law, which formerly had given them protection in the enjoyment of their possessions, was turned suddenly and mysteriously against them so that these possessions belonged to them no longer.

This was the calamity which it had been the chief object of American policy to avoid. How complete the American failure had been may be understood from the fact that, with the fall of the stabilized price-level, the

American producer began to suffer all the calamities which were befalling the European producer. After October, 1929, America was as firmly in the grasp of the world's financial authorities as was any country of Europe.

In these circumstances the persistent refusal of Congress to reduce the tariff is a phenomenon which deserves, evidently, the closest and most careful study. It was something more than a gesture of despair by the strong man, wounded and bewildered, among his enemies. Little as Congress seems to have known about the immediate causes of downfall, it did know, certainly, that its system of replaceable gold had been beaten in open conflict with the European system of irreplaceable gold. It knew, too, that by persisting in its refusal to accept goods in payment of debt it was continuing to challenge the system which had brought about its ruin and, in a true sense, taken it prisoner.

Congress, therefore, was actuated by motives of a kind which cannot properly be dismissed as ignorantly and narrowly selfish. Ignorance and selfishness no doubt played their parts, but there was mingled with them an heroic quality which Europeans would do well to examine seriously. Congress and those

farmers and workers whom Congress represented, simply did not believe that it was necessary—in the broadest meaning of that word—to return to the old system of the Nineteenth Century, about the evils of which everybody knew a great deal. A "new era" *had* opened; men *had* obtained glimpses of a fuller and better life and no wizardry of the world's financial authorities was going to blot out that lively memory.

And so blind Samson, strange and bewildering mixture of crude strength and childlike emotion, stretched out his hands to grasp the pillars of the Philistines' house.

That spectacle was scarcely noticed in Europe where preparations for the complete restoration of the economic system of the Nineteenth Century were being hurried forward. Europe, in these days, cherished none of the doubts and was torn by none of the flaming angers of the New World. The American scene was a mere confusion to eyes grown accustomed to an accountancy which presented its bills with exact and commendable punctuality and knew how to obtain payment without rancour. Europe was interested, indeed, not in finance, which nobody professed to understand, but in politics, for example the future of democracy

and the philosophy of Fascism. The League of Nations still carried the hopes and good wishes of the majority of Englishmen and Frenchmen, who debated at length the places they were ready to accord in that institution to their former enemies and to the Russians.

Bolshevism remained an absorbing study, especially in relation to the experiment of Signor Mussolini. Those who believed that "democracy was dead", indeed, canvassed the respective merits of a movement to the Right and a movement to the Left, as if truth, not hitherto revealed to the nations of the Eastern Atlantic sea-board, had been vouchsafed to Italians and Slavs. Thus, the evident truth that Bolshevism and Fascism are party dictatorships, conforming in all respects to the immemorial usages of dictatorship, tended to be overlooked. When price-levels are falling and profits, in consequence, disappearing, men turn to force as a means of restoring or supplementing their gains. All the European dictatorships, without exception, have their roots in the dislocations of the financial system which the War brought about. None presents a new idea in government. Behind each lies, more or less ill-concealed, the profit-motive, whether of class or party. The philosophy of dictatorship, consequently,

can be expressed in terms of gain and fear. Opponents are rogues concerned to cheat "the people" (i.e. the dominant party). The dominant party, on the other hand, is composed of heroes and patriots who, by virtue of their triumph over the rogues, have deserved well of their country. It is not, certainly, without significance that no European dictator since the War has attempted to institute a system of replaceable money.

Chapter IV

COLLAPSE

It is matter of interest that, whereas the appearance and growth of apparently formidable dictatorships all over Europe occasioned the world's financial authorities little or no anxiety, anxiety immediately became acute once more when it was positively known that the Americans had not abandoned their economic " heresies ".

There was good reason for this anxiety The general return to the gold standard, as has been said, had been made in order to oppose a strong barrier—namely falling food prices, to the flow of gold to the United States. It had been supposed, reasonably enough, that the crash of the American price-level, which from the beginning had been inevitable, would lead immediately to such changes on the other side of the Atlantic that no more gold would ever be shipped. These calculations had proved mistaken. The drain of gold was to go on.

That meant that prices in Europe, so long as Europe adhered to the gold standard,

would go on falling. The financial authorities, however, saw looming in front of them a more serious danger—namely that many if not all of the countries which had " returned to gold " might be tempted to abandon it again and thus to forsake irreplaceable treasure-money in favour of replaceable ticket-money.

In these circumstances they began to call up the loans which had been made, on short term, to Germany and other countries, on the principle of getting out while the going was good. The effect was to make it much more difficult for Germany to pay Reparations, which she had largely paid out of these loans. A clash between the interests of the governments to whom the Reparations were payable and the people who had lent money immediately and necessarily took place. Not unnaturally the private lenders complained to their governments that unless the burden on Germany could be reduced they were likely to lose their money.

A very large part of the loans to Germany had been made by Americans, bankers, and private citizens. These people became greatly alarmed and urged that, unless the stream of gold flowing to New York was reduced at once in volume, their loans would be rendered

worthless. This was a demand for the writing-down or abolition of the War Debts, and (or) the reduction of the tariff. It was the old demand in a new form. America must, once for all, turn aside from her policy of trying to support her price-level.

This demand was repeated with ever-growing emphasis throughout the winter 1930-1. Lending to Germany had now completely ceased, and loans were being called up as rapidly as possible. Germany was thus growing poorer from day to day and, consequently, more and more reluctant to make further payments. Meanwhile the stream of gold which continued to flow across the Atlantic was further reducing prices throughout Europe and so increasing the burden of debt. German producers obtained less for the goods they sold. They had consequently to sell more goods in order to discharge their liabilities, and all this at a moment when it was no longer possible to resort to borrowing.

The Germans, bitterly resentful as they were against the Treaty of Versailles, made the most of their afflictions. They declared that their creditors must choose between Reparations and private debts—unless indeed they were willing to lend more money. That

declaration produced storms in France, in England, and in America. It had the effect of causing some dissension among the former allies because whereas France, which had few private debts, was concerned chiefly with Reparations, England and America, whose private debts were, relatively, enormous were inclined to allow Reparations to lapse. England and America, however, had in addition their own dispute—namely the American tariff, which many Englishmen persisted in regarding as a main cause of the trouble. "Stop demanding gold," these Englishmen urged the Government of the United States, "and very soon things in Germany will right themselves because prices will rise."

Thus, to the economic pressure bearing upon the Americans there was added political pressure, both at home and abroad. Americans with interests in Germany and other European countries besought their government to change its policy; statesmen in Europe urged that, unless a holiday for debts was granted immediately, the foundations of European life must collapse. "You are a creditor country," these appeals insisted. "You have made large foreign loans and have, in addition, large claims

upon foreign governments. You cannot possibly be paid at all unless you are prepared to take payment in goods and services."

The effect of these solicitations was to divide the American people. Americans living in the Eastern cities who possessed foreign investments began to express resentment against "the Middle West" and the other farming belts, where, as they asserted, ignorant men were making a reasonable settlement impossible by virtue of their influence upon Congress. The quarrel was carried to the White House. President Hoover was invited on the one hand to "play a statesman's part" by declaring a moratorium and was implored, on the other, to protect the standard of living of his people no matter at what cost to Europe.

Mr. Hoover need not be blamed if he found it hard to reach an immediate decision. Events, however, were moving very quickly. On 11th May, 1931, it was announced that the Austrian Credit Anstalt, the largest and best known banking institution in Austria, was in dire straits.

Instantly the extreme gravity of the European crisis was revealed to those who knew something about the under-currents of Franco-German diplomacy. The French,

since the War, had feared, and with reason, that Germany would try to swallow up the small Austrian State and so extend her influence from the Baltic to the Adriatic. France was determined, at all costs, to prevent a course which, as she believed, must seriously threaten her own safety and that of her allies of the " Little Entente ".

The " financial help " (i.e. the loans at high rates of interest) which England and America had given to Germany had been viewed, therefore, in Paris with lively misgiving and even with resentment. Resentment had flamed out when, in March, 1931, Germany and Austria had announced that they were in process of negotiating a Customs Union, nor was French anxiety allayed by the assurance that the step had been dictated by the necessity under which both Germany and Austria were placed of meeting the fall in prices by an increased volume of trade. France had lent a great deal of money to Austria. Was the collapse of the Credit Anstalt due to the sudden calling-in of these loans ?

Europe was not compelled to wait long for an answer to that question. When the sinking Austrian bank appealed to the League of Nations Commission on Austrian Control

for leave to contract a foreign loan, as a last, desperate means of salvation, France demanded, as the price of her contribution to the loan, renunciation by Austria of the Customs Union with Germany. Austria refused that condition. The Bank of England immediately advanced the entire amount of the loan from its own resources.

Relations between France and England now became strained. That, however, seemed to many people to be a matter of small importance as compared with the effect exerted upon public opinion in America, where strong sympathy with Austria existed. If the collapse of Vienna and the impending collapse of Berlin did not convince the American Government that the time for economic experiment had passed, nothing, presumably, would ever effect such conviction. Once again, however, the spirit which had discounted the crash on Wall Street manifested itself. Though the American farmer was suffering terribly by reason of the collapse of his markets, he displayed so stubborn a resistance to the suggestions of New York that the White House made no sign.

The collapse of Germany began.[1] She had

[1] An excellent account of these events, from the banker's point of view, is given in *The Banking Crisis*, by Marcus Nadler and Jules Bogen (Allen & Unwin).

already, during the first half of 1931, lost nearly 3,500,000,000 marks in the form of called-in loans and fleeing capital. On 25th June, 1931, the Reichsbank began to sink and sent out urgent appeals for foreign loans. A credit of $100,000,000 was granted by the Bank of France, the Bank of England, and the Federal Reserve Bank of New York acting through the Bank of International Settlements at Basle. This credit was used up in a few weeks; the Reichsbank began to sink again and panic spread throughout the money markets of the world, all of which now refused to advance another penny to the Germans. Was Berlin destined to go the way of Vienna? And if that happened could Paris, or London, or even New York, hope to ride out the storm? Nobody knew the answers to these questions for so violent an upheaval was unprecedented, at least in modern financial story. Everyone recognized, however, that there remained only one man in the whole world who, perhaps, had it in his power to avert catastrophe—namely President Hoover.

Suddenly and without warning of any kind President Hoover proposed a moratorium on Reparations and War Debts to last during one year.

CHAPTER V

CRISIS IN EUROPE

THERE can be no doubt that the world's financial authorities looked upon the Hoover Moratorium as a signal victory for the irreplaceable treasure-money system (the credit system) which all of them wished so earnestly to uphold. War Debts were out of the way at last. The stream of gold flowing from the Old World to the New had been effectively dried up. Could the American tariff endure?

That question was being asked also in the farming belts in America. It was being answered by men upon whom the scourge of dreadful misfortune had effected a change not yet clearly understood by their more sophisticated fellow-citizens. The American farmers disapproved of what their President had done. An instinct, more clear-sighted than reason, assured them that the ideals for which they had borne, and were bearing, so many afflictions had been sacrificed. From this hour Mr. Hoover, as the leader of his people, was doomed.

The ominous and uneasy silence in the

United States made sharp contrast with the pæans of praise which all Europe, except France, was bestowing. At last, the financial authorities declared, America had found a leader worthy of her confidence, and the world a saviour to lead the nations out of their distresses. France's language, like that of America, was plainer: "Mr. Hoover has been bounced by Wall Street and the City of London."

The exasperation of the French Government is easy to understand, especially in view of the self-righteous attitude adopted on the money markets of New York and London. These money markets professed and proclaimed a disinterested love of humanity, of peace and goodwill, of international co-operation which obscured from many eyes the plain facts of the case—namely that the American policy of replaceable gold and a stable price-level had been torpedoed and that French security—to say nothing about France's claims to Reparations—had been sacrificed for the sake of the loans made to Germany by English and American bankers. Germany, alert as ever, was using the fear of the American system which haunted the minds of the international bankers, to shuffle off the burdens imposed on her by the Treaty

of Versailles, and so to hasten the day of rearmament. France's quick and violent reaction to the Hoover Moratorium sprang from recognition of this fact and resembled therefore, to some extent, the reaction of the American farmer. In both cases instinct dictated policy. The French instinct, however, differed widely from the American. France had no thought of setting up any new economic system or even of finding fault with the old ; she was concerned solely with the safety of her frontiers. That quality of mystery, therefore, like the spirit of youth, which was infused into the American resistance, was wholly lacking. France moved upon the highway of her history and her tradition ; America's movement was across uncharted lands. America was prospector, pioneer, pilgrim. Hungry, certainly, for her lost prosperity ; but with a hunter's zest wherein are mingled thoughts and aims other than getting—" Your young men shall see visions and your old men shall dream dreams."

America sulked to think about it. Youth, angry, morally uneasy, unsure of itself in face of confident experience. France acted. She opposed the Hoover Moratorium with arguments which had the effect of delaying its application while German finance was going

down by the head. On 13th July, 1931, the Darmstaedter und National (Danat) Bank closed its doors. Next day runs on all the German banks began and all the German banks collapsed. Panic spread her dark wings and came flapping across to London where, already, French depositors were busy gathering up their loans. During July and August some £200,000,000 were withdrawn from the Bank of England. Gold flowed out until it was obvious to all that the world's financial centre was bleeding to death.

In face of that strange and terrifying spectacle France took fright. Was England about to be driven off the gold standard? The hoard of gold in Paris had been gleaned with thrifty hands for the defence of the Fatherland; what would it be worth? The Bank of France began to support the pound sterling. On 1st August, 1931, the Bank of England obtained a foreign loan of £50,000,000, half from the Bank of France and half from the Federal Reserve Bank of New York. This loan had wholly disappeared by the end of the month. The Treasury, on 28th August, 1931, borrowed a further £80,000,000 from private bankers in America and in France. These transfusions of blood,

however, effécted nothing more than a temporary rally.

Meanwhile a political crisis had been superimposed, in England, upon the financial crisis. The writer holds no brief for the Labour party, with the policy of which—Socialism—he is completely at variance, but he has not been able to discover any ground upon which the charges levelled against that party in 1931 can reasonably be based. That the Labour party caused the world crisis is not seriously suggested by persons enjoying in any measure the confidence of their fellow-subjects. It is not suggested by the world's financial authorities who have, to their satisfaction, fastened the burden of guilt upon the American economic policy and its attendant drain of gold. Nor do those who believe that the real cause of the crisis was a desperate attempt to bring the world back from the replaceable money in use during the War to the irreplaceable treasure-money of the Nineteenth Century (and before) lay any charge against Mr. Ramsay MacDonald and his colleagues. In these circumstances the violence of the attack upon the Labour party may properly be attributed to the hysteria of fear by which, in the late summer

of 1931, so many minds (the writer's not excluded) were infected. The fact, nevertheless, that the leaders of Labour allowed themselves to yield to this hysteria remains both memorable and melancholy and shows that few if any among them can have possessed competent knowledge of financial methods.

The real charge against the Labour party, the charge, that is to say, which filled the minds of the world's financial authorities, was that Labour, whether wittingly or unwittingly, had been flirting in the American fashion with replaceable money. The Labour Government, in other words, had tried to temper the wind of deflation to the unemployed and others by various devices the effect of which was to restore to the country's markets the money which the loss of gold (to America) was taking out of them.

There are some charming and most interesting technical phrases by which a process whose effect is necessarily to take the loaf off the table while the hungry children are sitting down to tea is given the form and complexion of natural law. In plainer language it is a crime against the law of irreplaceable treasure-money to seek out any substitute for that money. There are, in this philosophy,

no gods but one, that is gold. Such methods as the maintenance of a low bank-rate in face of a falling gold stock, borrowing by means of short-dated Treasury Bills and—in certain circumstances—open-market operations [1] are therefore graven images—an idolatry.

The Labour Cabinet had resorted to some at least of these ways of defeating the operations of financial providence. It had therefore bowed the knee in the House of Rimmon.

Had the leaders of Labour, instead of displaying a lively uneasiness, explained boldly to the people what they had done and why they had done it, the gold crisis so far as England was concerned would have ended in August instead of in September, and the second of the two great foreign loans would not have been contracted. The Labour Government, and the party behind it, would have earned the respect of a very large body of men and women, who would have realized, sooner or later, that whereas few people, other than bankers, have anything to gain

[1] *Open Market Operations.* The Central Bank sells securities. These are bought by private persons who pay for them by writing cheques against their own banks. Thus their own banks lose money to the Central Bank and have to shorten sail in the matter of loans in consequence. The process can be reversed by the Central Bank buying securities.

by the use of irreplaceable treasure-money, everybody stands to benefit when prices are held stable by means of replaceable money.

The precipitate retreat of Labour before the threat of the fall of the gold standard, on the contrary, conveyed the impression—not since removed by the bold talk about nationalizing banks [1]—that its leaders were convinced of the supreme importance of maintaining the system of irreplaceable treasure-money and, like so many naughty children, were ashamed of their adventure.

That retreat is the more sorrowful in that there was not the least justification for it—as the event was so soon to show. Without lending any countenance to the angry cry of "bankers' ramp", which expressed the bitterness of the party's rank and file, the leaders might have declared simply that they had protected the weakest elements of the population against the effects of disturbance in a monetary system which was, evidently, on the point of breaking down. They might, had they known the facts, have explained how the efforts of the American Government

[1] The nationalization of banks is a matter of no importance to anybody. What matters is the type of money in use—whether replaceable or irreplaceable. The Labour party seems to be wedded to irreplaceable treasure-money.

to protect the standard of living in the United States had reacted upon a Europe determined at all costs to get back to the gold standard, and might properly have criticized the precipitate return to gold by England and other countries as rash and foolish in view of the American attitude. They could then have recounted, step by step, the terrible story of deflation and despair, and asked whether or not they had acted as faithful trustees in turning towards a monetary system by which release from the bondage of gold might be secured. Such explanations and such arguments might, probably would, have failed to carry immediate conviction. But in that case those who used them would have gone out of office fortified by the knowledge that time alone stood between them and the gratitude of the nation. Had they, on the contrary, remained in office and thus been forced to suffer the full rigour of the economic blizzard, they could have counted on their fellow-subjects to support them to the utmost. As Lord Fisher used to say: "England never succumbs."

Their passing, instead, was attended by a sense of relief which, in the circumstances, was fully justified. Just as a large part of the

American people believed that Mr. Hoover had been bounced by Wall Street, so the English people believed that its Labour party had been bounced by the Trades Union Council. The Labour party, like Mr. Hoover, was doomed the moment its lack of self-assurance was revealed. It went quickly to shipwreck and was replaced by a " National Government " pledged to irreplaceable treasure-money and determined to exact any and every sacrifice necessary to the maintenance of that kind of money.

Three weeks later the National Government was forced to abandon irreplaceable treasure-money—the gold standard.

The occasion of abandonment was a Sunday evening. A sorrowful procession of journalists was bidden to Whitehall and there, in an upper chamber, and amid every manifestation of gloom and distress, was informed that the long and heroic struggle to maintain the nation's " credit " had ended at last in defeat. It is credibly reported that one of these journalists—on his return to Fleet Street—found it impossible to restrain his tears. And indeed the event was charged with emotion. Not a nation's financial " credit " only was falling on that September Sunday night, but also a world power,

the third in succession from Imperial Rome. Henceforth gold would be Sovereign no longer but Pretender, fighting, in cheerless months and years, the Pretender's battle for restoration.

CHAPTER VI

CRISIS IN AMERICA

THE week which followed Great Britain's abandonment of the gold standard was full of glad surprises for the British people. Everybody was still alive and everybody had bread and beef in full measure. The government made haste to reaffirm its loyalty to the exiled " sovereign ", whose happy return it professed, with complete sincerity, to desire above everything on earth. The people, recovering their spirits, applauded. After all, if gold had taken wings, one could still use sterling. The General Election was conducted in that hopeful spirit and the Labour party received its punishment.

Meanwhile the gold standard had fallen in all the British Dominions except South Africa, and in the Scandinavian countries—to say nothing about less important States—and rigid foreign exchange restrictions had been adopted in Austria, Germany, and Hungary. The world was dividing into a " gold *bloc* " at the head of which stood the United States and France, and a " sterling area ".

These great events, as was inevitable in the circumstances, for the moment completely obscured the fact that the American people had not wavered in its determination to find a new economic system. Gold had fallen in England; in America the demand for gold stood. In the light of that demand the abandonment of the gold standard represented the release of England and her associates from an intolerable burden of debt. The whole world, as has been said, had had its debts doubled by reason of the fall in prices. Now by reason of the lowering in the gold value of their moneys the sterling countries had reduced these swollen debts by one-third. They were thus in a stronger position than their rivals who remained on the gold standard and so retained the full score of debt.

The serious effects upon themselves of this result of England's abandonment of gold were quickly realized by the citizens of the United States. England had cast off more than a quarter of her burden; they remained bowed to the earth. England had regained control of her price-level and was freed at last from the stranglehold of falling prices; they remained at the mercy of that fall. Worst of all the countries in

the sterling area, Canada, for example, and Australia, could now undersell America in every market and so force upon her fresh cuts in the prices of her farm goods.

A clear understanding of this power to undersell is essential and it must, therefore, be repeated that, since world prices are reckoned in gold, the less gold any currency contains the cheaper can the users of that currency afford to sell their goods in foreign markets. If, for example, the pound sterling contains only half its former quantity of gold then, *internationally*, the value of the pound is ten shillings (reckoned, of course, in foreign currencies, e.g. francs, dollars, marks), and an article priced at £1 in England or the British Empire generally can be sold at 10*s*. (reckoned in dollars, francs, etc.) in countries of the gold *bloc*. When the 10*s*. is brought home again it will, so to speak, turn into £1 and the exporter will obtain his profit. The farmers in Canada and Australia, in the autumn of 1931, found themselves in this happy position. Their products at the low prices they were enabled, by reason of England's abandonment of gold, to charge for them, drove American products, for example wheat, out of the world's markets. America had, therefore, to reduce wages in the farming belts and so,

further, to curtail the buying power of her home market. In other words the abandonment of the gold standard by Britain was equivalent, in its effect on the United States, to a new Wall Street crash.

Had the Americans been less anxiously concerned than they were with their domestic troubles they would certainly have realized that England, far from having discredited their ideas by her departure from gold, had proved them to the hilt. It was irreplaceable treasure-money which had made England weak and brought her to the brink of ruin. It was replaceable ticket-money which was saving her and confirming her in power and substance. While her money had been irreplaceable she had been a panic-stricken beggar on her neighbours' thresholds ; the moment her money had become replaceable she had regained her ancient prestige. Indeed, there was a sense in which it was true that the best defence which the orthodox monetary system had found against the economic "heresy" of Washington was—the economic "heresy" of Washington.

That important lesson was lost upon America because, as has been said, she was in too great distress to learn it. It was lost

also upon England because the panic speeches of statesmen during the crisis had convinced most people that it is gold which gives money its value—the opposite, of course, being true as had been shown when silver ceased to be used as money and fell at once to the same price, per ounce, as pipe-tobacco. Thus was presented the bizarre spectacle of Englishmen longing to restore the " sovereign " who had so nearly ruined them and Americans hating him in their hearts but goading themselves to maintain him on his throne so that he might complete their destruction.

The position which had obtained in 1928 was now, therefore, reversed. England was using replaceable ticket-money, and trying with some success to hold her domestic price-level stable. America—though she remained as determined as ever to protect her standard of living and to collect her War Debts—had lost all control of her ever-falling price level. As if the proof which England had furnished of the danger and weakness of irreplaceable money was not convincing enough, France and other countries of the gold *bloc* now proceeded to supply the Americans with a body of fresh evidence. France, resentful still about the Hoover Moratorium, and uneasy on her own account, began to call

up the money which, some years before, when the franc was depreciating, she had deposited in New York. During the month of October, 1931, France withdrew from the United States the sum of $324,500,000 in gold. Holland in the same month took $35,904,000, Switzerland $17,617,000, and Belgium $9,678,000. The total sum withdrawn by these and other countries in that month was $448,000,000, or £89,600,000. The outflow of gold in September had also been very large. In the space of two months the United States had lost $700,000,000 or £140,000,000 in gold.

This, in the eyes of the world's financial authorities, was a pleasant change from the spectacle of the flow in the opposite direction. Their rejoicing, however, was short lived. Heavy payments of trade debts and borrowed money had still to be made by Europe to the United States. During November and December, 1931, the tide turned once more. In November America took $122,000,000 in gold and in December $46,000,000, in all $168,000,000 or £33,600,000—about a quarter of the amount which had flowed out.

And still, although attempts to keep the price-level stable had been abandoned, there was no surrender on America's part. The tariff

remained, the War Debts remained, and America remained on the gold standard. The world's financial authorities including Wall Street girded their loins in confidence to wait and watch the influence of world prices on America. They were not without good hope. In October, 1931, 522 American banks had closed their doors; by February, 1932, the number had risen to 1,823. Deposits including savings of the value of $1,326,183,000 had been wiped out and a corresponding volume of buying power thus removed from the home markets.

The frightful character of this punishment is still very imperfectly understood in Europe. America was smitten like a land invaded by pestilence. Despair and hunger and disease broke up her family life and tore with their claws the flesh of her young children. Childhood and motherhood were ravaged while men looked on in dreadful helplessness or quested vainly for the enemy who was devouring them. Their ignorance was like the ignorance of Europe in face of the Black Death. Because of it they were actually defending the citadel of the destroyer—namely the gold standard, while trying to build up defences, in the shape of a rise of prices,

about their tottering homesteads. Their state indeed, if a great heroism of the common people had not made it glorious and if stubborn and unshakable determination to seek and find that better country, which had been seen from afar, had not sanctified it, would have been ridiculous. The only obstacle between them all and an abundant life was the surplus production of their farms —the wheat and cotton, especially the cotton, of which they could not, themselves, make use.

That obstacle not having been removed and the determination to maintain the gold standard persisting side by side with the determination to maintain the tariff and collect the War Debts, America's continuing crucifixion was certain, no matter what steps might be taken by her distracted government. For the tariff and War Debts assured the flow of gold to New York, which flow of gold assured the further fall of world prices (now quickened for all gold countries as has been seen by England's abandonment of gold), which further fall of prices assured the further ruin and disintegration of the American farmers, which further ruin and disintegration of the American farmers assured the loss of buying power of the home market and so the ruin of manufacturers

industrialists, and merchants and an ever-rising toll of unemployment—all of which assured new losses of buying power in the home market and so new disasters.

Shrewd observers in Europe, *who possessed the necessary knowledge,* realized how desperate the American situation had become and began to withdraw from New York the money they had sent back there after the first panic occasioned by England's abandonment of gold had subsided. No one can hope to understand the history of the last ten years who does not devote attention to this volume of wandering or "bad" or "vagabond" money, the movements of which exerted effects in almost every country. This money consisted, for the most part, of loans made for short periods of time at, usually, low rates of interest. It had been created, in the first instance, by fear. Fear remained its master and shepherd. If, for example, a bank in London felt uneasy about the business of its customers, it called in the loans made to these customers and, instead of re-lending the money to other customers (who might be expected to be similarly badly situated in view of the crisis and slump) bought dollar bills—(or franc bills or mark bills as the case might be)—in the Wall Street money

market. These bills were due for repayment after a short interval of time, a month or three months, and so the time-risk was small. Meanwhile the bank, having bought the bill below the full value which would, ultimately, be repaid, was getting interest. (These bills were called, sometimes, "interest-bearing gold.")

But even the shortest time-risk will, evidently, prove fatal if some great change occurs while it still exists. Foreign owners of sterling bills, for example, who held these bills on 21st September, 1931, when England abandoned the gold standard, lost a quarter or more of their money—in other words the pounds they received after 21st September bought fewer francs or dollars or marks than had pounds on the day when the bills were purchased.[1]

(Before 21st September one got 125 francs for £1 but after that date only about 80 francs; the value of the pound in dollars fell, similarly, from $4.8 to $3.2.)

Consequently, when the danger that England might abandon gold was realized, all the "bad" money which had found a night's lodging in London bolted, helter-skelter, from that city. The owners of sterling

[1] The Bank of France was a very heavy loser by England's abandonment of gold.

bills, in other words, sold them for what they would fetch and at once demanded gold in exchange for the pounds, shillings, and pence so acquired. They put the gold into safe deposits or shipped it out of the country—thus greatly hastening the final crash by still further reducing prices. For it must never be forgotten that every piece of gold hoarded or exported in this way had while in the markets been " mothering " a litter of thirty promise-pounds, all of which perished with their dam. Markets were thus, swiftly, emptied of money.

The short-term money, when it bolted from London, took refuge chiefly in New York and Paris, in which latter city the Bank of France had accumulated a large stock of gold, presumably as a " war chest " in case of trouble with Germany. When, later, it seemed that New York might suffer too severely from London's default the short-term money deposited there had come scurrying out, recalled by its French owners. The French still had a great deal of short-term money left in New York. English financial institutions and private persons also had large sums there and there were, in addition, great quantities of liquid funds belonging to Americans. Early in 1932 the owners of

this money began to think that Paris was a safer place than either New York or London —though they were beginning, even then, to revise their opinions about London.

This anxiety on the part of the great financial houses, who are the chief owners of short-term money, was quickened by the suicide in March, 1932, of Ivar Kreuger, the " Swedish Match King ". Kreuger's fall brought down a great New York house and shook severely the world's confidence in Wall Street at a moment when, for the reasons already stated, confidence was weakening. A fresh shock came a few weeks later, in April, when the American Government, goaded into action by the agony of the nation, announced that it was determined to raise prices to the 1926 level and, to that end, meant to carry out what was described as an " easy-money policy ".

This, it was feared, meant that America was going to follow England off the gold standard, and so reduce the gold value of her money. Nor did the protests of the American Government that it harboured no such intention reassure the owners of the short-term money, for they argued that, so long as America remained on gold, she would not be able to raise her prices seeing that world

prices would go on falling each time a fresh cargo of gold crossed the Atlantic. America, they remembered, had large surplus stocks of wheat and cotton which must be sold at world prices or else allowed to remain at home to depress the domestic market.

Consequently the vagabond-money took to the road once more, travelling now to Paris and—to a smaller extent—to London. New York lost $214,000,000 in gold in May, 1932. In June $234,000,000 took flight. This money exerted very little immediate effect in its passage for, as has been said, it had no progeny. (Short-term investment, as was pointed out in the MacMillan *Report*, is a form of hoarding.) But the fact of its passage occasioned alarm in the minds of bankers, financiers, and the public generally. Was America really coming off gold ? Large additional numbers of people hurried to call up loans and sell securities. Having drained the American markets of more and still more money, they added the proceeds to the vagabond caravan—in other words sent the money to Paris or London.

Perhaps the most astonishing circumstance in the history of these terrible years is the failure of the mass of mankind to realize, even dimly, what was happening. Nobody,

outside of the circle of finance, seems to have realized that these flights of money were of the nature of a "hold-up" of the working population of the world, even if panic played an important part in their genesis. Markets were stripped of buying power overnight without questions asked or opposition encountered. Demand evaporated and sellers of goods found themselves in beggary. (It must never be forgotten that the only title to anything in this world is consumption. If a man has boots for sale which nobody will buy he loses his income, then his boots, and finally his factory. The overhead charges destroy him.)

The process too, like appetite, grew with what it fed on. Market reacted upon market. Everyone tried to get out over the heads of everyone else. The bankers shouted for the repayment of their loans and when they were repaid made, as has been seen, mere "bad money" of the nations' life-blood. The customers of the bankers drew their small stocks in gold or, failing that, in dollar notes, and either added therewith to the vagabond hoard or buried the stuff in their gardens. It was every man for himself and the Devil take the hindermost.

In these circumstances the policy of Mr.

Hoover—namely price-raising by injections of new money into the markets—had, apparently, much to commend it even if its first effect had been a stampede. The American Treasury was still well stocked with gold. If one thousand millions of dollars had gone away, three thousand millions and more remained. The authorities believed that they could afford to neglect the outgoings in view of the incomings and that, given time, they could restore buying power.

But what they did not, apparently, see was that their new money would inevitably behave in the same way as the old money was behaving. They might try to put it out into the markets but, since that could be done only through the banks, they were bound to fail. The banks would not dare, with their customers in hoarding mood, to take any risks and would, consequently, use the new money to buy short-dated securities, foreign for preference. Thus the new money would join the horde and go overseas like the old money.

This is what happened, though at first Americans showed a much higher degree of confidence in the dollar than, for example, Frenchman or Swiss or Dutch. The same fear was in every mind—namely, " Each piece of gold remaining in the market is the mother of

thirty promises to pay it. If I get in quickly and cash my particular promises for gold, I shall be safe. If I wait, somebody else will snatch away the mother and leave me with her dying or diminishing offspring on my hands. Further, once I have got gold for my promises I can send it abroad until either the dollar falls or the crisis ends. In either case I shall be better off than if I leave my money in the home markets."

Chapter VII

A MAN EMERGED FROM DARKNESS

England's adherence to the gold standard and irreplaceable treasure-money was not, as has been said, weakened by her abandonment of gold. The National Government was convinced that there could be no real recovery in this country until the export trade had revived and consequently until foreign lending (which in its essence is a method of giving people money with which to buy your goods) had been resumed.

But it was recognized, at the same time, that all idea of a return to gold must be put away until America had renounced her "heresy". Experience had shown that no system of treasure-money was strong enough to withstand the drain imposed by a great creditor country which refused to accept payments in goods and services.

The efforts of the National Government were bent, therefore, to secure two complementary aims—namely to stop the drain of gold to America and (or) to reduce the quantity of gold which it would be necessary

to transmit. The abandonment of the policy of Free Trade was the expression of this latter design. The former design led directly to the Lausanne Conference on Reparations.

By imposing tariffs on foreign goods and arranging systems of quotas with the Dominions at Ottawa, England closed her markets, so far as possible, to American goods, and thus took steps to reduce her indebtedness to America. The effect was, of course, to increase the surpluses of wheat and cotton in the United States and so, further, to depress prices in that country. It was represented to Washington, however, that this step was in no sense an unfriendly one. England could not pay in gold both War Debts and commercial debts and consequently, since America insisted on receiving War Debt payments, had been compelled to curtail her buying of American products.

There is reason to believe that this argument exerted a great influence on the American administration. President Hoover, by reason of his Moratorium, was pledged to some extent to a policy of debt revision. He listened carefully to the proposal that the Moratorium should be extended into a world-wide agreement to renounce War Debts altogether and appears to have left in the minds of the

English negotiators the impression that, if France and England forgave Germany, America would not hold back from forgiving France and England.

The Lausanne Conference opened, therefore, in an atmosphere of cheerfulness. An agreement was quickly reached whereby the wiping out of Reparations was made contingent on the wiping out of War Debt by the United States. An exhausted Europe sat down to wait for a new gesture from the other side of the Atlantic.

That gesture, so confidently expected, was not forthcoming. Very soon rumours that Mr. Hoover had changed his mind began to circulate in London and Paris and there were angry complaints that France and England had been misled. The reminder from Washington that the President had no power to cancel debt did nothing to allay the feeling of exasperation.

In truth, however, Mr. Hoover was helpless. His plans had gone awry and his calculations had been falsified. At the time when he had declared his Moratorium he had believed that that step, in conjunction with "easy money" at home, would rescue the world and he had looked, in consequence, to the gratitude of his fellow-citizens to confirm his leadership.

Armed with that gratitude he had meant to bring America back into the economic system of the Nineteenth Century first by making his Moratorium permanent and then by submitting his tariff to the judgment of a World Economic Conference which, as he hoped, and had been assured by Europe, would, if the American Tariff was reduced, usher in a new era of prosperity.

The failure of the easy-money policy brought this plan to ruin. Instead of gratitude Mr. Hoover earned suspicion which became lively when the negotiators at Lausanne, anxious to leave nothing to chance, talked about the "American plan" and, as one commentator remarked, "interrupted their deliberations every few seconds to blow kisses across the Atlantic." Leaders of Congress began to ask what it was all about and to hazard guesses that the President knew more about the Lausanne Conference than he was prepared to admit. Was a second Moratorium about to be sprung on the American people? If so, would Mr. Hoover please note that the most conspicuous effect of the first had been the flight of gold out of the country and a further sharp fall in commodity prices. America was in no position to write off the obligations of debtors who were showing themselves unfriendly and

whose sole concern, evidently, was to break down the last defences of agriculture and industr ·.

There was a note of stern reproof in these criticisms of Mr. Hoover which made the unfortunate man's dealings with Europe look like the flirtations of an erring husband. Was this the leadership which a people enduring crucifixion rather than submit to the dictation of international finance had the right to expect? There were 14,000,000 unemployed persons in the United States. Homes were empty; children, gathered into starving bands, prowled the country-side like the cubs of wild creatures. What a moment to exchange caresses with harlot money markets and their ignorant political tools. In vain Mr. Hoover protested his good intentions. The wafted salutations of the European powers, like clinging and betraying perfume, witnessed for his adversaries. America turned her back on him as, formerly, though for different reasons, she had turned her back on Woodrow Wilson.

Instantly Europe also became critical. The President, it seemed, had been savaged by Congress. The business of extirpating the Transatlantic heresy would have to be begun over again. Mr. Hoover went down, as the British Labour party had gone down—a man

who had misread his generation, a backward-looking man, a citizen of the Nineteenth Century, worst of all an old man in a young world. Like the British Labour party he was branded with ignorance. His critics declared that he had been bounced, befooled, bewildered, and had not known how to disentangle the greed of money-lenders from the principles of economic science. Seeing that his critics were themselves pledged to two mutually destructive systems—namely, treasure-money and a stable level of prices, these comminations were harsh, to say the least of it. But they carried, nevertheless, a burden of justice. Mr. Hoover had showed that he lacked the instinct which, through fire and hell, was driving his people on to a new country. He stood outside of the Crusade, outside of the rapture and ecstasy and agony. He was detached, judicial even, while they reeled, giddy with the sap of a new life. Looking at him, America seemed to know herself as in a flash of the intuition which is given to nations at high moments of their destiny. This man's gestures to the world convinced his people that they had not laboured or suffered in vain.

That awakening of America to a sense of her destiny is the big event of the year 1932—

probably of the whole crisis. The nation had fought without leaders, without instruction, without plan of campaign, blindly, as wild creatures fight who feel the bonds tightening upon them. And somehow it had not been beaten; somehow, though hunters great in cunning had willed to take it, it had not been caught. A shiver of worship upheld the spent body; to-morrow had been won out of God's hands. There was hope, future, faith.

But not knowledge. The spirit which had condemned Mr. Hoover for taking the necessary steps to uphold the gold standard, was resolute itself to uphold that standard impossibly, before the world. The gentlemen of Wall Street shrugged their shoulders and begged their friends in Europe—*cette vieille Europe* as Napoleon called it—to excuse the good farmer lads who knew no better. For themselves, they were looking for a leader among the Democrats who, at least, held instructed views about tariffs.

The Presidential election was at hand. Mr. Hoover went out to the hustings. He met there a man crippled years ago through a stroke of illness but come back, by faith and a brave heart, to the business of living. A man emerged from darkness like the people he essayed to lead. Like them renewed in the lively sense of deliverance.

Chapter VIII
NATIONAL CONSECRATION

Wall Street liked the look of Mr. Roosevelt. It liked the answers he supplied to the anxious inquirers whom it sent to question him. "Was he in favour of sound money?" "Why, yes, of course, of sound money. The sounder the better." "Did he approve of the wiping out of War Debts?" "Well, one must try to show the spirit of the good neighbour." "And tariffs?" "There again, the good neighbour."

The young men returned and reported that Mr. Franklin D. Roosevelt was "a sound money man", opposed both to War Debts and to Tariffs. Wall Street informed Lombard Street and all the Bourses. Great praise of Mr. Roosevelt filled the columns of the World's Press.

Meanwhile the American people was taking a look at him. Everyone had read the story of his illness and of the way in which he had "come back" through black procession of days and nights; his face confirmed the story. A smiling, cheerful, brave face. He seemed to know something, too, about the

sufferings of the American people, though he talked less than most candidates for the Presidency. Nobody minded his being a sound money man because everybody was that; but it was a pity that Wall Street approved of him. The farmers could not easily disentangle his policies; they considered his illness and began to take pride that he wished to serve them. Before Election Day millions of men and women felt that they had known Mr. Roosevelt during many years, during the years of his suffering and weakness as well as during the years of his recovery. Some of them felt that they had known from the beginning that he would recover because they had known that he would never abandon hope. They all elected him.

That was in November, 1932. Mr. Hoover's tenure of the Presidency did not expire until the 4th of March, 1933. In three months there are nearly 100 days and banks were failing at the rate of two or three a day, with resulting bankruptcies and foreclosures and forced sales. People in the cities cashed their promise-money for gold; in the farm belts they went on thinking about the President-elect and his illness and his recovery from illness and went on reassuring one another that they had always known he would

recover. Because of his faith. And courage. The young men from Wall Street visited him, sometimes. He was still in favour of sound money and neighbourliness. Very learned economists in many lands wrote memoranda for his guidance. Most of them proved, in these papers, that goods always tend to become cheaper[1] and that this is a very great blessing to everybody. That was felt by Wall Street to be a strong argument in favour of reducing the tariff. On 15th December the English National Government paid the instalment of War Debt which Mr. Hoover had not dared to remit. The money was wrapped up in a memorandum in which it was explained that

[1] This is the doctrine of the Austrian school of economics which has many adherents in this country. The idea is that if the tendency to produce more cheaply is met by an attempt to prevent prices from falling a " boom " will occur—there will be more money than goods in the market. This is true on a system of irreplaceable treasure-money. It is not true with replaceable money, for since the price-level is held fixed, the fall in price of one article causes a corresponding rise in price of some other article. An equilibrium exists, indeed, by virtue of demand on the one hand and supply on the other. Demand, with a stable price-level, is stable in the sense that its volume remains unchanged. Its direction alone can change. This will be influenced by price, fashion, taste, and so on. Articles which obtain a rise, as the result of the fall of other articles, therefore, will be produced in greater quantity until they too fall and other, new articles are raised. Thus popular demand will expand production to its full limit, when a more or less permanent equilibrium will be produced. The Austrian economists work on the assumption that money possesses intrinsic value and that if saved or hoarded it cannot be replaced. Much economic writing to-day is true only of irreplaceable money, not of replaceable money—and consequently possesses only a historic value.

War Debts were quite different from ordinary debts and that there was no hope of recovery until they were wiped out as Reparations had been wiped out—the implication being that England could not think of returning to the gold standard until her wishes had been met, or, in other words, that the strength bestowed by replaceable money would not be sacrificed until America ceased to play ducks and drakes with irreplaceable money—without which irreplaceable money, suggested the memorandum, no recovery could possibly take place. The memorandum had been written, or so it was believed, in language simple enough to be understood by American farmers and the members of Congress.

It reached its readers at a moment when their minds, certainly, were occupied with the subject of finance. Not the world's finance but their own. The State of Nevada had already enjoyed a "banking holiday"—twelve out of the twenty-five banks in the State had shut. This spectacle sent everybody with a dollar to his name in every other State to his own bank counter. Frantic customer faced frantic teller and a great shout went up, from customers and tellers simultaneously, for the guarantee by government of bank deposits.

What this meant was that the government should transform all the litters of promise-money into real money or rather replace them with its own money—dollar notes. Those who made this demand, and the number included most of the bankers in America, forgot that the whole essence of irreplaceable money is—*irreplaceability*. There was no banker on the American Continent who had not assured his fellow-citizens, times without number, that irreplaceability is the *only* guarantee the owner of money can possibly have that his money is safe. And here were all these gentlemen declaring solemnly—and truthfully—that if irreplaceable money was not, at once, transformed into replaceable money (*replaced* in other words) every bank would be compelled to shut and every customer of every bank would be ruined.

It was an interesting criticism of the credit system supplied by the adherents of that system themselves. In their grave distress they were constrained to deny all that they had ever said or maintained. Mr. Hoover found himself in a difficult position, for his power was ebbing away. He did not replace the irreplaceable money—a decision in the strictest accord with orthodox teaching, sound money, and "inexorable economic Law"

Consequently on 20th January, 1933, there was a second " banking holiday ", this time in Iowa. On 4th February, 1933, Louisiana also went on holiday. With an exquisite tact the Governor suggested that the holiday should be looked upon as a tribute to the late President Wilson who, on that date, in the year 1917 had broken off diplomatic relations with Germany.

" Whereas," he announced in a public proclamation, " more than sixteen years have intervened before the American people have turned their eyes back to the lofty ideals of human uplift and new freedom as propounded by Woodrow Wilson, and whereas it is now fitting that due recognition be given by the great State of Louisiana, in line with the far-reaching principles enunciated by that illustrious Southerner who sought to break the fetters of mankind throughout the world.

" Now therefore, I, Oscar Kelly Allen, Governor of the State of Louisiana, do hereby ordain that Saturday, the 4th day of February, 1933 . . . be a holiday throughout the State . . . and I do hereby order that all public business, including schools, *banks* . . ."

When they read that word the people of Louisiana understood. . . . But they were too

late. The weary bank tellers were already doing honour, elsewhere than behind their counters, to the memory of Mr. Wilson.

Meanwhile banks which had claims on the great central institutions in New York began to call in their money, competing in this scramble with the public which was now panic-stricken. Michigan went on holiday on 14th February, 1933 (without honour paid to Mr. Wilson), and a further sum of $1,500,000,000 passed into cold storage.

These distresses were sharpened by criticisms levelled against a number of men upon whose counsel and wisdom many of their fellows had been wont to rely. The names of Mr. Charles E. Mitchell, Chairman of the National City Bank, and Mr. G. Dawes, whose plan for the regeneration of Germany had won so much approval in European banking circles, lost a little of the lustre of financial wizardry which, until now, they had displayed. Even the pangs occasioned by this loss, however, were forgotten when, suddenly, all that was left of the vagabond money took to the water in a frantic attempt to reach dry land on the banks of the Seine and Thames. The only sounds which filled listening ears in these February days were the splashings of the rats and the thud of closing

doors. Money, sound money, irreplaceable treasure-money, was gone out of America. Men asked one another that question which has been whispered in every financial panic. " Will the farmers bring food to the towns ? "

Nobody could answer, for already, in their agony, milk farmers and others had gone on strike. Dreadful visions of the breakdown of authority began to haunt all minds. Would the skinny ghouls who filled the slums of New York and Chicago and the other great cities come forth from their kennels to devour the living body of America ? Was Bolshevism at hand ? Or Chaos ?

The world's bankers it was recalled had promised chaos if the American heresy was not recanted. Long ago in the house of wizards it had been foretold that this heresy must lead, step by step, to ruin and destruction. Had the wizards spoken truth ? Was it the standard of living, the tariff, the War Debts which, in fact, had precipitated catastrophe ? There were whispers that resistance to the world's bankers must be abandoned forthwith, as men abandon a blasphemy. The gods of Wall Street and Lombard Street and the Bourses must be propitiated with timely sacrifice before their wrath was further unloosed upon the children

of disobedience. No more talk about replaceable money! Back to the orthodox gold standard and free trade. Back to safety and confidence and economic Law!

On the farm lands, where men were stripped to the flesh of all their possessions, these counsels were heard with stiffening jaws and hardening mouths. The farmers answered the towns by saying that they would print money with their blood on their skins sooner than yield an inch.

The morning of Inauguration Day, 4th March, 1933, came up at last out of the deep sea to New York City. It discovered a group of sombre men about a table in the Governor's house. On the table was a proclamation announcing the last of the banking holidays, that of the State of New York. It had already, at 4.20 a.m., been issued to the Press. A few hours later Mr. Hoover shook Mr. Roosevelt's hand before the Capitol in Washington. The new President, whose voice was broadcast to the ends of the world, then addressed the nation. He said[1] :—

"This is a day of National Consecration and I am certain that my fellow-Americans expect that, on my induction into the

[1] Mr. Roosevelt's books, *Looking Forward* and *On Our Way*, both contain the full text of this address.

Presidency, I will address them with a candour and a decision which the present situation of our people impels.

" This is pre-eminently the time to speak the truth, the whole truth, frankly and boldly. Nor need we shrink from honestly facing conditions in our country to-day. This great nation will endure as it has endured, will revive and will prosper. So first of all let me assert my firm belief that the only thing we have to fear is fear itself, nameless, unreasoning, unjustified terror which paralyses needed efforts to convert retreat into advance.

" In every dark hour of our national life a leadership of frankness and of vigour has met with that understanding and support of the people themselves which is essential to victory, and I am convinced that you will again give that support to leadership in these critical days.

" In such a spirit on my part and on yours we face our common difficulties. They concern, thank God, only material things. Values have shrunk to fantastic levels ; taxes have risen ; our ability to pay has fallen ; government of all kinds is faced by serious curtailment of income ; the means of exchange are frozen in the currents of trade ; the withered leaves of industrial enterprise lie

on every side ; farmers find no markets for their produce ; and the savings of many years in thousands of families are gone.

" More important, a host of unemployed citizens face the grim problem of existence and an equally great number toil with little return. Only a foolish optimist can deny the dark realities of the moment.

" And yet our distress comes from no failure of substance. We are stricken by no plague of locusts. Compared with the perils which our forefathers conquered because they believed and were not afraid, we have still much to be thankful for. Nature still offers her bounty and human efforts have multiplied it. Plenty is at our doorstep, but a generous use of it languishes in the very sight of the supply.

" Primarily this is because the rulers of the exchange of mankind's goods have failed through their own stubbornness and their own incompetence, have admitted their failure and have abdicated. Practices of the unscrupulous money-changers stand indicted in the court of public opinion, rejected by the hearts and minds of men.

" True, they have tried, but their efforts have been cast in the pattern of an outworn tradition. Faced by failure of credit, they

have proposed only the lending of more money. Stripped of the lure of profit by which to induce our people to follow their leadership, they have resorted to exhortations, pleading tearfully for restored confidence. They know only the rules of a generation of self-seekers. They have no vision; and where there is no vision the people perish.

" Yes, the money-changers have fled from their high seats in the temple of civilization. We may now restore that temple to the ancient truths. The measure of the restoration lies in the extent to which we apply social values more noble than mere monetary profit."

* * * * *

" We do not distrust the future of essential democracy. The people of the United States have not failed. In their need they have registered a mandate that they want direct, vigorous action. They have asked for discipline and direction under leadership. They have made me the present instrument of their wishes. In the spirit of the gift, I take it.

" In this dedication of a nation we humbly ask the blessing of God. May He protect each and every one of us. May He guide me in the days to come."

Chapter IX

GOD'S OWN COUNTRY

It is credibly reported that a distinguished international banker on hearing Mr. Roosevelt's speech described it as "pure Bolshevism". But it was not that. Nor was it Socialism. Nor Fascism. Nor even Liberalism. So unfamiliar was the world with the political system which the President was reintroducing into Western civilization that few among his hearers recognized it.

Yet the system as he described it was clear and unequivocal, complete too in all its lively organs. Mr. Roosevelt began his speech with the words "*national consecration*"; he ended it with the words "*dedication of a nation*". Thus, the idea of commonwealth upon which all the nations of Europe, in more or less degree, are now based, and upon which America until that moment had been based, was transmuted to the idea of common-service first of God and then of men. Rights vanished to give place to duties. The temple of American life had been pulled down and rebuilt. Everything was become new.

So great a revolution in so short a space of time is unique in human story. It was not only the right to "rugged individualism", or the right to get rich, or the right to earn profits which was challenged. It was Right itself; five centuries of philosophy. Mr. Roosevelt snatched away one system that he might offer another, the foundations of which are giving instead of getting, and the meaning of which cannot be known until men have lifted up their eyes to God in dedication. The words of Washington's Constitution remained; the spirit of the words had been changed so that the United States of America were no more the same lands which they had been nor their people the same people.

But Mr. Roosevelt in announcing change did not suggest that he had produced it. "*This great nation will endure as it has endured. . . . The people of the United States have not failed,*" he said, confessing that, already, all that he described had come to pass. And he added, "*They have asked for discipline and direction under leadership.*"

He turned then to the nature of leadership and bade men distinguish between the false and the true, between the motives of profit and the motives of service by which false

leaders and true are accustomed to effect their ends, between greed and that excellent loyalty which "*gives support to leadership in critical days*". Thus it was not dictatorship which he was offering but fatherhood, the consecration and dedication of himself to God ("May He guide me in the days to come") and to the people. Identification with the people rather than the mission of being their representative or their master. Again the outline is sharp and distinct.

Nor did the President hesitate to define the policy which he meant to base upon these foundations. It was the policy for which the American people had suffered so long and so terribly—"*the ancient truths*" of production and consumption instrumented by honest money and protected against "*unscrupulous money-changers*". Mr. Roosevelt promised control of credit and exchange, pledging himself thus to replaceable money. He promised also the policy of the good neighbour.

America, to-day, is discovering, slowly perhaps but certainly, that the "New Deal" is identical with that system to which, long ago, men gave the name of Christendom and of which the cathedrals of Europe are the expression, the shrine, and the sepulchre. The Christian civilization of Europe was made

and supported by consecrated peoples under leaderships modelled upon the Divine Fatherhood. Not the Rights of Man but his Duty was the universal concern and so the practice of money-lending which is destructive of loyalty and fellowship was set beside murder as deadly sin. Not that men might exploit the resources of Nature for their mutual advantage, like the shareholders in a limited liability company, or like the members of a party or class, or even like the body of citizens in a commonwealth, was the aim of that civilization, but that they might advance in love one of another and so enter into the spirit of Christ.

"Some people," wrote the President recently,[1] "have sought to describe (my) policy as revolutionary; perhaps it is. It is revolutionary, however, only in the sense that the measures adopted and the purposes that they seek differ from those that were used before . . .

"Some people have called our new policy 'Fascism'. It is not Fascism because its inspiration springs from the mass of the people themselves rather than from a class or a group or a marching army. . . .

"Some people have called it Communism;

[1] This and succeeding quotations are from *On Our Way*.

it is not that either. It is not a driving regimentation founded on the plans of a perpetuating directorate which subordinates the making of laws and the processes of the courts to the orders of the executive. Neither does it manifest itself in the total elimination of any class or in the abolition of private property. . . .

"Apart from phrases and slogans the important thing to remember is, I think, that the change in our policy is based upon a change in the attitude and the thinking of the American people."

"When I was in France during the War," Mr. Roosevelt said in a recent broadcast address, "I heard our boys speaking of the United States as 'God's Own Country'. Let us so make it. And let us so keep it."

CHAPTER X

FRONTAL ATTACK

THE American people heard Mr. Roosevelt in a Pentecostal ecstasy which was not wholly untainted by the emotional stress which they had endured. Europe, on consideration, decided that it did not know what he was talking about. Did he know himself ?

The world's financial authorities made it their business, quickly, to find out whether or not he did know. They are men of the world and very tolerant of rhetoric when politicians find themselves in a tight corner. The chastisement of the " money-changers " in the Inaugural address left them unhurt and even mildly amused. They had heard it before. But the allusion to the control of credit was a different matter. Was it possible that this lawyer Roosevelt meant to continue the struggle ?

The more sanguine among them dismissed the idea as ridiculous. They knew their system. It was irresistible. And, in America, the point where resistance must break down had been reached. Money had

vanished. It could not be replaced. The farmers would refuse to feed the towns and the hungry townsfolk would give the politicians a lesson in economics. The great international houses in Wall Street awaited Mr. Roosevelt's summons.

But their telephones remained obstinately silent. The new President, unbeknown to them, had been watching their operations and those of their associates throughout the world. He knew that the speculation in dollars which had been going on throughout February had an object other than mere profit. The buyers of the dollars were changing them into gold and shipping the gold out of America, thus adding to the panic which the runs on the banks had created and thus, at the same time, regaining for themselves supplies of the precious metal.

This assault on the dollar and wholesale raiding of the gold stock corresponded to the following-up of a defeated enemy by the victors in some pitched battle. The objective it seemed was to keep the Washington Government and the American people on the run, to demoralize them, break the last shreds of their resistance, and scatter them like chaff while their treasure was being gathered up and dispatched to the strong-rooms of their

conquerors. There is no doubt that, had any other than Mr. Roosevelt been President, this plan would have succeeded.

"Nearly two months previously," Mr. Roosevelt has since stated, "I had discussed with a number of people the authority of the President to assume jurisdiction over a banking crisis by closing all banks . . . A friend of mine suggested that some of the War emergency legislation of 1917 had not been repealed and found for me a statute of that year covering the point."

Consequently on the day after his inauguration the new President turned against the enemy and inflicted the first, sudden blow in what, even at that hour, Americans recognized as a war of national emancipation. It was proclaimed that—

"No banking institution or branch shall pay out, export, ear-mark, or permit the withdrawal or transfer in any manner or by any device whatsoever of any gold or silver, coin or bullion or currency . . . or deal in foreign exchange transfer credits from the United States to any place abroad or transact any other banking business whatsoever."

This was action. Action, too, against the enemy's main body.

"Three steps—all interrelated—" declared

Mr. Roosevelt later, "were necessary: first by drastic measures to eliminate special privilege in the control of the old economic and social structure by a numerically small but very powerful group of individuals so set in authority that they dominated business and banking and government itself. . . ."

To speak about "the Money Power" in England is to invite ridicule—although it was an Englishman, the late Lord Milner, who coined the term. Mr. Roosevelt knew better and the Money Power knew that he knew. The great international banking houses, with their branches and affiliated corporations in every country of the world, realized now that they would have to fight as they had not fought since they met and destroyed Napoleon. It was Roosevelt or they, they or Roosevelt. The world was not big enough to hold them both.

When two systems which are mutually destructive come face to face anywhere emotions hitherto unsuspected are unleashed. When each of these systems has its foundation in the hearts of men, among that welter of feeling whence issue all virtues and all crimes, the consequent unleashing of passion rends the world. The American President was challenging a greed system, most perfect

in its mechanism and most excellent in its strength; a system, moreover, hidden with such rare cunning that none could detect its movements, and so interlocked with the lives of men and women, their work and thrift and charity, that all apparently must come to ruin in its catastrophe. He had found the weak spot in his enemy's defence—namely the impossibility of conducting international finance without control of the world's price-levels, without, that is to say, the acceptance by all peoples of the system of irreplaceable treasure-money. Lacking that control the Money Power could not promise to pay seeing that it could not be sure of delivering goods in fulfilment of its promises and might, consequently, have to deliver gold of which, at any time, it possessed a very small quantity. A loan to the Greek Government by a London house is safe so long as English prices are as low as or lower than any other prices because in that case the Greek Government will buy in England and the London house will write cheques against itself in favour of the English exporters. Such a loan is unsafe when the Greek Government may buy in, say, Japan and may ask for gold in which to pay the Japanese exporters.

Mr. Roosevelt's control of the general

price-level in America, therefore, meant the end of foreign lending, and so, if continued long enough, the end of the international houses in Wall Street. The President understood this so well that he attacked these houses directly. It was enacted by Congress at his request that bankers should not, in future, combine ordinary banking with international lending (" deposit banking with investment banking ") and must choose which they proposed to carry on. It was further enacted that investment bankers must become public companies and publish balance-sheets, and penalties were imposed for any inaccurate statements in prospectuses of loans. The veil of secrecy was torn away. At the same time the President gave his blessing to the Senate Banking Inquiry which was about to summon before it the greatest among the wizards of Wall Street in order to inquire searchingly into their activities during the crisis.

This was carrying the war into the enemy's country. The supporters of irreplaceable money in America began to organize their defence while, elsewhere, a new eagerness to restore the gold standard was everywhere displayed. Demands for the World Economic Conference to which Mr. Hoover's Moratorium

was to have been the prelude were revived throughout Europe and notably in France.

The National Government in England meanwhile accepted an invitation from Mr. Roosevelt to send a representative to Washington for discussion of measures for the restoration of world trade. So important did this invitation seem to the British Cabinet that Mr. Ramsay MacDonald, the Prime Minister, decided to go himself.

Meanwhile Mr. Roosevelt was addressing himself to the work of restoration. He wrote :

" One of the most technically difficult problems had been the restoration of the purchasing power of the farm population of the country. Several unsuccessful experiments had been tried. The farmers themselves were not agreed. . . . There had been no national planning. An effort to purchase crop surpluses with Government money had ended in disastrous losses. Yet we were faced by the fact of these surpluses. . . . We aimed at action at two points : reduction of acreage in certain basic crops and relief from the pressure of farm mortgages and from the loss of farm homes."

A message to Congress was delivered on 16th March in which the President said :—

" The proposed legislation is necessary now

for the simple reason that the spring crops will soon be planted. If we wait for another month or six weeks the effect on the prices of this year's crops will be wholly lost."

His eyes were set on that deadly see-saw whereby the American price-level had been broken and the Wall Street crash precipitated and whereby every effort to find salvation had been frustrated. He knew that so long as the American farmer remained at the mercy of world prices, because he could not sell his whole output at home, just so long would those who controlled world prices of farm goods hold the American farmer, and with him the whole American people, in bondage to themselves. This act, therefore, was a great frontal attack. It was also a courageous facing of the real emergency—for farmers are naturally reluctant to grow smaller crops than they feel themselves able to grow.

Mr. Roosevelt has been criticized bitterly by monetary reformers and others for adopting a policy of reduction of supplies. Why not, these critics have urged, have instrumented the use of the surplus wheat and cotton with new money and thus made it possible for Americans to buy their own products? Those who argue in this way betray a great lack of knowledge of the

American situation in 1933 and of the mechanism of money. If dollar notes had been distributed *en masse* they might, conceivably, have been used to buy wheat and cotton and so might have found their way into the pockets of farmers. From these pockets they would inevitably have gone to the banking system to which all the farmers were heavily indebted. They would have been used to buy short-term investments or foreign bonds or currency and the markets of the country would have known them no more. In other words, the Government would have paid off some part of the farmers' debt to the bankers and might, in the process, have effected some small diminution in the huge stocks of farm goods.

These are the utmost advantages which could possibly have been reaped. Neither would or could have resolved in any respect the difficulties against which Mr. Roosevelt was contending. For the farmers' debts were so heavy as to be unpayable *at the existing level of prices* and the stocks of surplus farm goods were so great, throughout the whole world, that no small increase of consumption in America could have achieved any beneficial influence. America had been accustomed to export half her cotton crop. She did not

possess the means of spinning this raw material at home and could not immediately create such means. People do not buy raw cotton, however much money they possess.

The disadvantages of an indiscriminate issue of new money, at a moment when the President lacked control of the banking system, are obvious. His new money, once it reached the banks from the pockets of the farmers, could, at will, have been used to breed fresh promise-money. Thus, though at first it might have been sent abroad or hoarded at home, the possibility would always have existed that the banking system might make it the basis of a fresh expansion of credit and so of a new boom in industrial goods and stock-exchange counters. Such a boom, in the depressed condition of agriculture, must have led to what Mr. J. M. Keynes called "an almighty crash"—and so to the extinction of Mr. Roosevelt's leadership.

The President's difficulty, indeed, was twofold. First of all he had to raise all prices; in the second place he had to raise farm prices relatively to industrial prices. The first necessity was laid upon him because, as has been said, debts do not diminish when prices diminish. A farmer with an income

of £1,000 a year may find it easy to pay £100 a year in rent and another £100 in interest on debt. But if the farmer's income falls, by reason of a fall in the prices of the food-stuffs grown by him, to £200 a year then rent and interest will swallow up the whole of his income and bring him, quickly, to ruin. And what is true of farmers is true of every producer whether of goods or services.

The impossible burden of debt, therefore, could not be lightened except by an all-round raising of prices—except, that is to say, by a rise in the general level of prices.

But even that would not, evidently, help the farmer at all unless the prices of the goods produced by him shared in the rise. If the general price-level rises and the prices of farm goods fail to rise with it, all that happens is that the whole rise is transmitted to factory goods. The farmer, thus, as has been said, gets no more for what he sells and has to pay considerably more for what he buys.

Consequently it was necessary not only to raise the basis of the see-saw but to bring the see-saw itself into equilibrium. The only way in which this could be achieved was to pursue a policy of restriction in agriculture simultaneously with a monetary policy having as its object the control of the entire monetary

machine and the gradual expansion of the nation's buying power.

Here, again, danger threatened. For if wages were increased there would be a temptation to increase prices to the same extent. All that would, thus, be accomplished would be a further upsetting of the see-saw against the farmers. Price-fixing for factory goods was therefore necessary in conjunction with the campaign to raise wages.

These plans were embodied in two great measures, the Agricultural Adjustment Act (A.A.A.) and the National Industrial Recovery Act (N.I.R.A.). A.A.A. and N.I.R.A. were complementary and cannot be separated in any review of Mr. Roosevelt's activity.

His activity so greatly frightened Wall Street that arrangements were made in some quarters to get money out of the country on a large scale. It might seem that, as the President was setting up a system of replaceable money, this movement need not have occasioned him any anxiety. But to argue in that fashion is to overlook the psychological importance of gold. Mr. Roosevelt proposed to retain his stock of gold so that none might suggest that the dollar was not a "sound" currency.

" Early in April (1933)," wrote Mr. Roosevelt, " several symptoms began to give us grave worry concerning the gold reserve in banks in the United States. It was true that the total stock of gold here was adequate to meet all existing currency or credit needs. But at the same time recent history gave many examples of sudden and uncontrollable flights of gold caused by speculation or fear. Some Americans were, I regret to say, so alarmed about the future of their own country that they began to export their own capital. Others, I also regret to say, believed that if they could put the money into foreign currencies by exporting gold they would later be enabled to buy more dollars through an unpatriotic speculation. In Europe increasing pressure on our gold reserves was exerted by international speculators and by banks and individuals who sold American securities, bought American exchange, and demanded payment in gold" (i.e. sold American stocks or shares on the New York Stock Exchange for dollars and then changed the dollars into gold).

" The result was a great increase in the ear-marking' of gold in New York on foreign account and, probably, for actual export. A movement such as this could

amount, almost immediately, we believed, to at least half a billion dollars (£100,000,000). Any acceleration of it might well cause us to lose a billion or even two billions of gold reserve (i.e. £400,000,000). The fact is that, during the short suspension of the gold embargo in April (1933), we lost one hundred millions (£20,000,000) in gold.

" It was at this point that Secretary Woodin and I decided that the time had come to prevent the export of any more gold.

" This was acomplished on 20th April through a very important Executive Order . . . which stated (among other provisions) :—

" 'The Secretary of the Treasury is authorized to investigate, regulate, or prohibit any transactions in foreign exchange, transfers of credit from any banking institution within the United States to any foreign branch or office of such banking institution or to any foreign bank or banker, and the export or withdrawal of currency from the United States by any individual, partnership, association, or corporation within the United States.'

" Thus we served notice on the country and on the world that we proposed to maintain our gold reserves intact. . . . Gold here, in the

United States, ceased to be a medium of exchange.

"The next morning the Secretary came in to see me. I think that he and I felt very happy because we had cut the Gordian knot. His face was wreathed in smiles, but I looked at him and said:

"'Mr. Secretary, I have some very bad news for you. I have to announce to you the serious fact that the United States has gone off the gold standard.' Mr. Woodin is a good sport. He threw up both hands, opened his eyes wide, and exclaimed: 'My heavens, what, again?'

"That order was the turning point. Its result was felt almost immediately. American Exchange weakened in terms of foreign currencies and the price-level at home went up substantially. . . . The country understood that the dollar was just as good a dollar as it had been before and that, in fact, we proposed to make it a more honest dollar than it had been during the three and one-half years of constant and growing deflation."

Mr. Ramsay MacDonald, meanwhile, was upon the Atlantic, bound for New York, and passing, every day, ships laden with American gold on its way to Europe. M. Herriot was about to sail for America from Havre. And

the price of wheat on the Liverpool market was descending once more to the 4*s*. per 100 lb. line which had marked the nadir of depression. As soon as the news of America's abandonment of the gold standard in its old form reached Europe, the price of wheat rose sharply.

Mr. Roosevelt and Mr. MacDonald issued a memorandum at the end of their discussion in which they agreed that the most important, and therefore first, step ought to be an attempt to raise world prices, after which it would be possible to take measures for stabilization. Memoranda along the same lines were issued later by other foreign visitors to the White House, among whom were—in addition to M. Herriot—Mr. Bennett (Canada), Senor Jung (Italy), Senhor Breton (the Argentine Republic), Dr. Schacht (Germany), Senhor Pani (Mexico), Finance Minister Soong (China), Senhor Brasil (Brazil), and Viscount Ishii (Japan).

In view of these agreements it was decided to hold the World Economic Conference immediately, and arrangements were accordingly made in London, to which city, early in June, 1933, delegates came from every part of the world. The Conference was opened by His Majesty the King. Almost

immediately, in the words of Mr. Roosevelt:—

"It became clear that the delegations of certain nations in the Conference were determined to compel some definite and immediate form of stabilization of the exchange-rate between the dollar, the franc, and the pound, as a condition precedent to the serious discussion of any of the many other objectives of the Conference. . . . The demand of the nations constituting what was known as the "gold *bloc*" amounted to saying to the threescore nations in the Conference: 'We will not discuss anything; we will break up the Conference unless the United States first agrees to immediate stabilization.'"

Mr. Roosevelt realized that if dollar, franc, and pound were tied together by the old gold standard replaceable money would have been abolished at a stroke and irreplaceable treasure-money set up again throughout the world. In other words the control of the American price-level and of every other price-level would have been handed back, once more, to the financial authorities. This, indeed, is obvious the moment it is remembered that the act of tying currencies together by gold implies a willingness to keep them so tied. Thus, if prices had fallen in

France, American prices must also have fallen or the dollar must have lost value in relation to the franc—which loss of value the Government of the United States would have promised by the act of stabilization to prevent. Such a fall can be prevented only by allowing all holders of dollars to exchange them for gold—in other words by allowing a great outflow of gold from America. Mr. Roosevelt understood this perfectly. He understood that what, in fact, he was being invited to do was to undo all that he had accomplished since his Inauguration and further to make it impossible for himself or anybody else, ever again, to attempt such innovations. "Pledge yourself," the demand meant, "to abjure the heresy of replaceable money, to recant your New Deal, and to destroy the machinery of recovery which you have already set up."

The President's answer was dispatched on 2nd July, 1933. It ran :—

"I would regard it as a catastrophe amounting to a world tragedy if the great Conference of nations, called to bring about a more real and permanent financial stability and a greater prosperity to the masses of all nations, should, in advance of any serious effort to consider these broader problems,

allow itself to be diverted by the proposal, of a purely artificial and temporary experiment affecting the monetary exchange of a few nations only. Such action, such diversion, shows a singular lack of proportion and a failure to remember the larger purposes for which the Economic Conference originally was called together.

" I do not relish the thought that insistence on such action should be made an excuse for the continuance of the basic economic errors that underlie so much of the present world-wide depression.

" The world will not long be lulled by the specious fallacy of achieving a temporary and probably an artificial stability in foreign exchange on the part of a few large countries only.

" The sound internal economic system of a nation is a greater factor in its well-being than the price of its currency in changing terms of the currencies of other nations.

" It is for this reason that reduced cost of government, adequate government income, and ability to service government debt are all so important to ultimate stability. So, too, old fetishes of so-called international bankers are being replaced by efforts to plan national currencies with the objective of giving

to those currencies a continuing purchasing power which does not greatly vary in terms of the commodities and needs of modern civilization. Let me be frank in saying that the United States seeks the kind of dollar which a generation hence will have the same purchasing and debt-paying power as the dollar value we hope to attain in the near future. That objective means more to the good of other nations than a fixed ratio for a month or two in terms of the pound or franc.

"Our broad purpose is the permanent stabilization of every nation's currency. Gold or gold and silver can well continue to be a metallic reserve behind currencies but this is not the time to dissipate gold reserves. When the world works out concerted policies in the majority of nations to produce balanced budgets and living within their means, then we can properly discuss a better distribution of the world's gold and silver supply to act as a reserve base of national currencies. Restoration of world trade is an important partner, both in the means and in the result. Here also temporary exchange fixing is not the true answer. We must rather mitigate existing embargoes to make easier the exchange of products which one nation has and the other nation has not.

" The Conference was called to better and perhaps cure fundamental economic ills. It must not be diverted from that effort."

This message brought the Conference to an end, thus supplying the world with evidence by which to test the truth or untruth of Mr. Roosevelt's charge.

CHAPTER XI

REPLACEABLE GOLD

THE prices of food-stuffs had risen before and during the early days of the Conference. They began to decline as soon as Mr. Roosevelt's decision was known. The rise, indeed, had been due solely to speculation upon the possibility of a return to irreplaceable money, of a consequent great outflow of gold from America, and of an expansion (based on this new gold) of purchasing power.

It has been argued that such speculation indicates the high degree of confidence reposed in irreplaceable money. Mr. Roosevelt, on the contrary, looked on it as a thoroughly unhealthy sign. He was not trying to raise prices in order to put profits into the pockets of gamblers, and the whole conception of a trade and commerce based on violent fluctuations of price was foreign to his policy. He expressed satisfaction, therefore, when the speculative bubble burst.

Its bursting was followed by a rise in the value of the dollar, in relation to the European currencies, which was highly unwelcome to

the authorities at Washington, seeing that a rise in the value of money means, sooner or later, a fall in the value of goods, especially when these goods are being exported into foreign markets.

What was taking place, indeed, was in effect a "pegging" or stabilization of the dollar exchange over the heads of the Washington authorities. The effect was to restrict the export of farm goods from America and so to throw back the goods that could not be exported on to the home market. "An export surplus," as one of Mr. Roosevelt's lieutenants pointed out, "which cannot be exported becomes a domestic surplus," and depresses home prices.

The American farmers in these circumstances began to agitate for an outpouring by the Government of new money in the form of "greenbacks" or silver. This alarmed the public. Deputations came to the White House to urge that inflation was always ruinous and that the President ought to set his face against it.

The President was doing so. Mr. Roosevelt has shown his courage again and again in the stout resistance which he has offered to his friends the farmers when their demands have been unwise. He refused to inflate.

But he understood, nevertheless, that the danger of inflation would remain with him for many months and that it was so great a danger as to call for prompt and effective measures of prevention.

Above all he wanted a cheap dollar. His opponents, as has been said, desired that his dollar should be "dear", that is, that it should be big with gold. The great technical skill possessed by the operators on the European money-markets enabled them to fill the dollar with gold in spite of all opposition.

It is obvious, for example, that if the English price of gold is £7 an ounce and if every pound sterling is worth five dollars, the dollar price of gold will be $35. If now a large-scale buying of dollars with pounds takes place, so that dollars become scarce and dear in relation to pounds, and a pound, in consequence, fetches only four, instead of five dollars, the price of dollar gold will be $28. Each dollar will now be worth more gold, that is to say will *contain* more gold. Thus :—

English Price of Gold : oz.	Number of Dollars to Pound	Dollar Price of Gold	Gold in Dollar
£		$	
7	5	35	1/35th oz.
7	4	28	1/28th oz.

As has already been seen, the more gold a currency contains the higher must be the prices charged by exporters using that currency. Thus, the process of putting gold into the dollar had the effect of preventing American farmers from selling wheat as cheaply as, say, Argentine farmers or Canadian farmers or Australian farmers, and from selling cotton as cheaply as, say, Indian farmers or African farmers. The American surpluses were bottled up in the American markets.

This may seem, and has seemed, to some Englishmen a highly satisfactory state of affairs, in so much that " American competition for foreign markets " was crippled. But such a view is based on a misunderstanding of the true interests of England. It is based on acceptance of the doctrine that irreplaceable treasure-money is the only sound money and that, consequently, the chief end of national production is export of the products into foreign markets where claims to gold may be acquired in the shape of so-called " favourable " balances of trade (that is to say an excess of exports over imports). Mr. Roosevelt was not trying, and is not now trying, to " filch away " England's export trade, for his system is based not on

foreign trade but on the home market. All that he asked was a temporary measure of relief from a position which had become intolerable. He had been ready and anxious to discuss, at the World Economic Conference, ways in which his farmers might co-operate with farmers in other lands to achieve some improvement in a condition of affairs which was destroying them all.

The President of the United States, therefore, was the friend and not the enemy of English farmers and of farmers in the Dominions and Argentina. He threatened no interest of the English people but, on the contrary, offered to that people the co-operation of the American people in the grave crisis of both their fortunes. If England and America had joined hands, as was his fervent wish, an attack against the depression could, immediately, have been launched. Unhappily minds were so befogged with false economics that the cause of treasure-money seemed to many to be the cause of England herself. Patriotic Englishmen, therefore, rejoiced in the movements of exchange which, as they believed, were helping their country in an uphill fight against "the American Shylock" with his War Debts and his tariff.

Those Englishmen, on the contrary, who knew the facts, felt nothing but shame and sadness. If only the great-hearted and most valiant English people could have realized that their co-operation was being invited in order to make an end of the crisis !

Mr. Roosevelt could not wait until enlightenment had come to the English people ; the lack of enlightenment of large numbers of his own people was a heavy enough burden. He decided, therefore, to attempt to prevent the filling of his dollar with gold by fixing, provisionally, the quantity of gold which it should contain. He proposed to achieve this end by buying the output of gold of the American mines at a fixed price.

" Because," he wrote, " of conditions in this country and because of events beyond our control in other parts of the world, it becomes increasingly important to develop and apply the further measures which may be necessary from time to time to control the gold value of our own dollar at home.

" Our dollar is now altogether too greatly influenced by the accidents of international trade, by the internal policy of other nations, and by political disturbance in other continents. Therefore, the United States must take firmly in its own hands the control

of the gold value of our dollar. This is necessary in order to prevent dollar disturbances from swinging us away from our ultimate goal—namely the continued recovery of our commodity prices.

"As a further effective means to this end I am going to establish a government market for gold in the United States. . . . I am authorizing the Reconstruction Finance Corporation to buy gold newly mined in the United States at prices to be determined from time to time. . . . Whenever necessary to the end in view we shall also buy or sell gold in the world market."

The idea was that everybody who thrust gold into the dollar after this would be liable to have his gold taken out of it again on the other side of the Atlantic. Thus, if an ounce of gold costs £7, and if these £7 bought only $28 at a moment when the American Government was prepared to pay $35 for an ounce of gold, people would buy gold in London, ship it to New York, get $35 an ounce for it, and with their dollars buy pounds. The profit on the transaction can be set out in this way:—

£7 buys 1 oz. of gold,
1 oz. of gold buys $35 in U.S.A.
$35 buys (at $4 to £1) £8 15*s*.
Profit £1 15*s*. on every £7 employed.

Thus a drain of gold from Europe to America would necessarily take place. It was upon this drain of gold that Mr. Roosevelt relied. He did not, at first, however, buy any foreign gold. He hoped, apparently, that the mere possibility that he might do so would be enough. It was not enough. The filling of the dollar with gold continued.

The supporters of treasure-money, in other words, were determined to force the President to fulfil his threat. The reason is simple. Buying gold at a fixed price is one of the principles of the old gold standard. If the President could be induced, therefore, to adopt this principle the way to a restoration of irreplaceable money would be open.

It is evident from his speeches that Mr. Roosevelt saw the difficulty and felt anxious about it. If he refused to buy gold, no risk of loss of the metal would attach to the operation of large-scale buying of dollars on the foreign exchange markets. Consequently these operations would continue with restrictive effects on the export of American goods and food-stuffs. In such circumstances the demand of the farmers for inflation was bound to be revived and might prove irresistible. Inflation could not possibly raise farm prices but it could and would raise

the prices of factory goods. Thus the position of the farmer would be worse than before and the dollar itself would be in danger.

During several weeks the President made no sign. His problem was how to buy gold at a fixed price without surrendering the principle of replaceable money and with it the control of the level of prices. He solved it, as, months before, he had made ready, if necessary, to solve it, by returning to the system in use before the Wall Street crash of transmuting the huge gold stock into something different from gold.

When is gold not gold? Evidently when it is so plentiful that its quality as treasure no longer exists. The wreck of a bullion ship on a desert island would be an example of such "de-treasuring" or de-valuation of gold. The metal, among the shipwrecked sailors, could possess no more than a token value, supposing that they decided to use it as a form of money. Mr. Roosevelt's supply of gold was enormous; he decided to increase it by every conceivable device so that it might become as enormous in relation to his need of it as—in the example given—was the bullion from the wrecked ship in relation to the needs of the sailors.

To achieve this purpose it was necessary,

first of all, to have the whole gold stock of the country under his hand, absolutely, and to forbid any private holding of the metal whatsoever. Again, it was necessary to have the power to reduce to a low limit the quantity of gold which should constitute a dollar—thus enabling a relatively great number of dollars to be made out of the stock. Power, too, must exist to reduce still further the quantity of gold in the dollar, so that any conceivable loss might instantly be made good.

It might have happened that one of the sailors on the island managed to construct a boat, unbeknown to the others, and to escape with, say, a tenth part of their gold stock. If the sailors, at that moment, were using the whole of their gold stock as money, this loss must have caused their prices to fall. But if they were using only one-tenth part of their stock, then the loss could have exerted no influence because it would have been made good at once from the reserve of the stock which was not in use. Even in the first instance, where the whole stock was in use, a fall of prices could have been prevented by reducing the quantity of gold in each token of the currency.

These two methods combined—a huge reserve and the power to reduce the quantity

of gold in the unit of money—can always be relied upon, therefore, to prevent gold from acquiring a treasure or scarcity value, in other words from becoming irreplaceable. Since America had no foreign creditors and was almost entirely self-contained in the matter of raw materials, her President's plan was launched with a good assurance of success.

But Mr. Roosevelt buttressed his plan further, nevertheless, by including in it a reserve stock of silver to serve as money and by creating an Exchange Equalization Fund for—

"such purchases and sales of gold, foreign exchange and government securities as the regulation of the currency, the maintenance of the credit of the Government, and the general welfare of the United States may require".

Thus Mr. Roosevelt had gone back, deliberately, to the American post-War monetary policy. But with this tremendous difference: *he was no longer concerned to sell raw materials, farmers' goods, to the world.*

CHAPTER XII

"TOUGH GUY"

THAT Mr. Roosevelt's replaceable gold came as a surprise to the advocates of irreplaceable gold is very likely. But though the Secretary of the American Treasury spoke about a "new gold standard" little was said to suggest that a policy of a revolutionary character had been embarked upon. On the contrary many people believed that the President had seen the error of his ways and, like a wise man, had decided to change them.

Mr. Roosevelt meanwhile was concerned chiefly with his price-level, the stability of which was the main object of his endeavour. His attention was fixed especially upon the discrepancy between the farmers' prices and the factory prices, that see-saw which, from the beginning, had been America's Achilles' heel. Months must elapse before the surplus crops could be reduced. Would the sorely stricken farmers contain themselves during these months?

The general price-level had risen, thanks to the devaluation of the dollar in terms of

gold. (If a country gives more of its money for gold it will have to give more of its money also for goods, seeing that goods may be bought with gold.) This rise is shown in Fig. 3. But the rise of the price-level was not, as has been said, accompanied by such a rise in farm products as would have put an end to the farmers' embarrassment. As a glance at the figure will show the price-level as a whole on 10th February, 1934, stood at 73 per cent of the 1926 level. Factory products stood at about 86 per cent of that level and farm products at about 62 per cent. The factories were comparatively busy ; the farms were derelict.

This was the condition which Mr. Roosevelt described as " half-boom, half-slump ".

" I continue," he told Congress in his message to that assembly on 3rd January, 1934, " in my conviction that industrial progress and prosperity can only be attained by bringing the purchasing-power of that portion of our population which in one form or another is dependent upon agriculture up to a level which will restore a proper balance between every section of the country and every form of work."

It was useless, indeed, to try to raise the general price-level any higher until the

see-saw had been brought into equilibrium. Consequently when he introduced his replaceable gold, the President at the same time stabilized his general price-level at a point in the neighbourhood of 75 per cent of the 1926 level. He had already asked Congress to give him control of all the commodity exchanges and markets in the country, of the Stock Exchanges, and of the tariff. He looked to his two major plans, A.A.A. and N.I.R.A., helped out by public works, public relief, and subsidies, to tide him over the period of difficulty before the projected reductions in crops had begun to exert influence on the prices of agricultural goods.

These plans of the President necessarily aroused anxiety in the minds of persons whose faith in the old gold standard remained unshaken, for the removal of gold from the dollar was making it increasingly difficult for countries which had not devalued their currencies to compete in foreign markets. The choice was open to the countries comprising the gold *bloc*, for example, to reduce the quantity of gold in each unit of their moneys or, on the other hand, to reduce prices by the ordinary processes of deflation—namely reduction of wages and of expenditure by government. The gold *bloc* chose deflation.

This choice must be counted a heroic one when it is remembered that the inauguration of Mr. Roosevelt's policy caused a violent upset of the foreign exchanges and made it profitable for a time to ship gold out of France and other European countries for sale in New York. The departure of the gold caused a restriction of credit and so brought about a further fall in gold prices. When the measures for reducing these prices by government action were enforced this fall was very much intensified.

As a glance at Fig. 4 will show the fall in gold prices was transmitted to American prices. Mr. Roosevelt's complete index (the basis of his see-saw) was fixed at about 75 per cent of the 1926 level. But at the beginning of April his farm prices began to fall once more—with of course a corresponding rise of his factory prices. It was the clash of the irreplaceable European gold against the replaceable American gold and *because of the American surplus crops* the European gold was the stronger of the two. Mr. Roosevelt had gone for a short fishing holiday. The cries of distress of his farmers followed him and Congress, in an access of anxiety, actually passed the bill to give back their pensions to the " Veterans ", though the

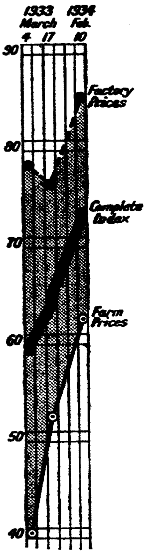

FIG. 3.—U.S.A. Bureau of Labour Statistics (wholesale prices) 784 commodities 100 = 1926 average (shows rise in general and other price-levels during first year of Mr. Roosevelt's presidency).

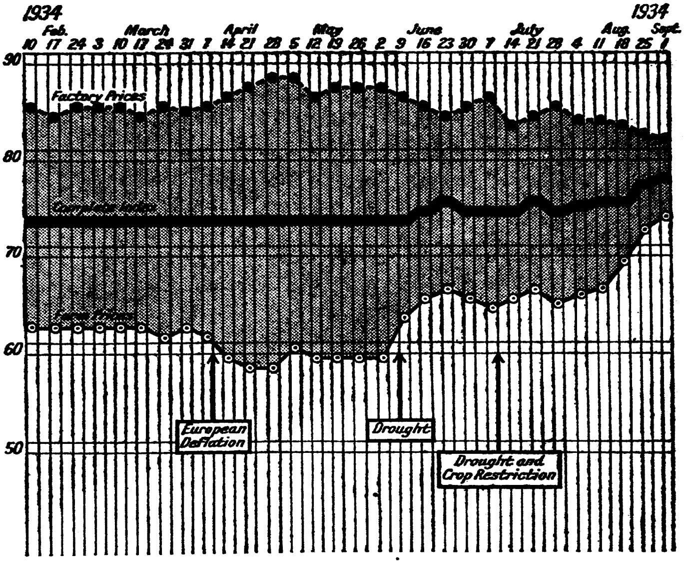

FIG. 4.—U.S.A. Bureau of Labour Statistics (wholesale prices) 784 commodities 100 = 1926 average (note that the rise in farmers' prices has, temporarily, a depressing effect on factory prices).

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President had vetoed it. Congress, as stimulated by its farmer constituents, was in an inflationary mood. If the President could do nothing to raise farm prices, it would take the business of raising them out of his hands.

All the advocates of monetary manipulation became vocal. Some were for greenbacks, others for silver, others for a mixture of gold and silver; but all demanded an immediate increase in the *quantity* of money. "Put out buying power," was the slogan.

The dollar fell on the foreign exchange markets. The sorely pressed peoples of the gold *bloc* began to hope that, after all, American factory prices would go "sky-rocketing" and so relieve them of the need of cutting their factory prices any further. Supporters of irreplaceable money made ready to say that they had always known that replaceable money constituted a great danger when politicians had control of it. For a few days it seemed as if the Roosevelt dollar was doomed.

Then the President came back. Congress went to meet him at the railway station with a brass band and displayed a humility which suggested a party of naughty schoolboys in the presence of their master.

Mr. Roosevelt made a short speech in which he spoke about himself as a " tough guy " and described the lessons he had been taking in " catching sharks ". A few days later he published in two parts a list of the holders of stocks of silver. Part One gave names beginning with letters of the alphabet between A and H. Several banks figured prominently in the lists.

The lists were published without comment. But the effect of them was immediate and overwhelming. When the farmers who had been crying for a silver inflation saw them, they ceased, suddenly, to agitate. Congress lost its voice and decided that the silver bill had better be made " permissive "—in other words the President should be free to do what he chose. The dollar rose on the foreign exchange markets. Nor did the New York Stock Exchange display the least enthusiasm when reports began to come in about a severe drought, accompanied by sandstorms, on the wheat belts of the United States and Canada.

CHAPTER XIII

RELEASE

THE great drought of this year 1934 has achieved already (September) for Mr. Roosevelt release from the control of world prices. No longer can his farmers be influenced directly by the deflationary activities of the gold *bloc*. In consequence of that tremendous fact many persons who, a short time ago, were urging that no devaluation of the franc or lira or florin should for an instant be considered are now—rather coyly it is true—of opinion that the time is at hand when devaluation must be carried out.

It is not difficult to understand the reason for this change of view. Mr. Roosevelt's policy is on the high road to success, seeing that his farmers are regaining their buying power and that he himself remains the undisputed master of his price-level. Consequently the American home market, based as it will be on the needs of 120,000,000 persons, will be the greatest which the world has ever seen. In that vast market American producers will be able to recover their costs of production

and earn a profit. They will therefore be able to export their surplus goods at prices so low as to compel other nations to adopt their system.

If, for example, England is faced with the competition in world or Empire markets of goods, the prices of which are so much below the cost of production of the same goods at home that no hope exists of underselling them, England will be forced to expand her home market to its utmost extent if only for the sake of retaining some part of her export trade. She will have no choice in the matter, nor will France nor Germany nor any other country. These expanded home markets will possess a high degree of absorptive power for foreign goods and consequently surplus goods will be exchanged against surplus goods all over the world. (Thus, for example, a surplus of English coal may be taken by the French in exchange for a surplus of French wine.) As this exchange of surplus goods will benefit everybody and threaten none, all tariffs and restrictions will, ultimately, disappear except where it is desired to retain them for purely political reasons.[1]

This is not, let it be urged, a vision of

[1] The British Government, for example, might think it expedient on political and military grounds to grow some wheat in England.

Utopia. It is the certain and inevitable result of the success of Mr. Roosevelt's policy—a result which, if Mr. Roosevelt's policy is not destroyed by some at present unpredictable calamity, will assuredly be attained within the next four or five years.

And, indeed, though only two months have elapsed since American farm prices began to rise, signs are already visible of the great changes which are about to take place. Thanks to the use of replaceable money in America and England, foreign lending by the international bankers has ceased. At the same time a large number of business firms have found it possible to pay off their debts to the banks and the public or to reduce the rate of interest on these debts. Governments, too, are converting their long-term debts to lower interest-rates. These repayments and conversions have been made possible by the steadiness of price-levels through the world—a reflection of the steadiness of the American level of prices. This process is bound to continue. If the American price-level remains stable (which is now very likely indeed) more and more business men and farmers will be able to get permanently out of debt. And as they pay off their debts it will become increasingly

difficult to find new borrowers, for the money thus repaid.

But, under the existing system, price-levels are determined by the amount of borrowing. When a producer borrows from his bank he distributes the loan in the form of wages and other costs. This is the buying-power on which every market depends. Consequently the money repaid to the banks, if it is not re-lent at once, is money taken out of the markets.

The banks, on the other hand, cannot re-lend unless they can find good, credit-worthy borrowers, the supply of whom, at this hour, is admittedly drying up. If there are no borrowers how is the money which has been repaid to be returned to the markets?

That question is of first-rate importance seeing that, as has been said, the level of prices depends on the quantity of buying power in the markets. If the repaid money cannot be re-lent prices will fall.

But, in the case of America at any rate, the Government is pledged to prevent such a fall of prices. The American Government, therefore, must become the borrower and take large sums from the banks with which to finance public works of all kinds. This is exactly what Mr. Roosevelt is now doing.

He is borrowing, too, at rates of interest so low as barely to cover the cost of book-keeping. In other words, and in view of the control which he exercises over the American banking system, he is borrowing, virtually, for nothing, seeing that, if he chose to do his own book-keeping, the expense would be as great.

So enormous, however, is the capacity of modern scientific industry to produce goods that a time will soon arrive when even borrowing by government for public works will not put enough money into circulation to maintain the stability of the price-level. There will be more goods than money and prices will tend to fall. At this point the government will be compelled to begin paying off its debts with newly created money—for private, like public, borrowing will have come to an end. Taxation of all kinds will now, of course, be abolished. The next stage (for production is limitless) will be the increase of pensions and all forms of public payments. The last stage will be what Major Douglas has called a "National Dividend".

CHAPTER XIV

THE INDISPENSABLE GUARANTEE

THE world, at present, thanks to Mr. Roosevelt, is entering upon the period of public works. Slums will everywhere be cleared, roads built, and parks and other recreation grounds laid out. While this is going on taxation will diminish and markets will expand. Soon, thereafter, the exchanging of surpluses with foreign countries will begin and the shipping industry will emerge from depression to a degree of activity and prosperity never formerly known.

And side by side with this process will go the process of mechanization. Machines will be produced to do all the dirty and disagreeable work and these machines will be tended by skilled engineers to whom very high salaries will be paid. The workers thrown out of employment by the machines will be entitled, like all other citizens, to a National Dividend the size of which will be determined by the amount of new money required each year to maintain the price-level—which amount will, of course, correspond to the

amount—reckoned in money—of new goods created but not consumed during the year.

In other words men and women will be enabled to use their products instead of being compelled to destroy them. (It should be noted in this respect that idle plant represents products in process of destruction.) But they will not be forced, as at present, to produce goods for which they have no use, or no fancy. Being possessed of money they will be able to demand such goods as may satisfy their artistic as well as their appetitive desires. Thus, while on one side industry will tend to be completely mechanized so that only skilled engineers will have any part in it, on the other side it will tend to revert to craftsmanship and art. Machines will do the "donkey-work" without other human intervention than is supplied by the superintendence of highly qualified engineers. Men and women will create the beautiful things which, from the beginning, men and women have desired to make and to possess. Thus leisure will be transmuted to a new and nobler service, a fuller and richer work.

Those who feel inclined to make merry over this prospect ought to remember that the means of realizing it are now in human

possession. There is no task of machine-minding or machine-feeding which cannot, to-day, be accomplished by another machine. Any engineer will undertake to produce the necessary "apparatus" if given the necessary funds. Raw materials exist in such superabundance that nobody knows what to do with them, while the means of transport are becoming more efficient and more plentiful daily. Humanity has the material, it has the knowledge, and it has the skill. To-morrow or the next day, thanks to Mr. Roosevelt, it will have the least costly of all the ingredients of Utopia—namely the money. Money costs nothing.

But he would be a great optimist, nevertheless, who supposed that no further attempts will be made by those, whose faith is set upon the old system, to defend it by attacking the new. If the new system succeeds completely the financial powers of the world will be reduced to the position of bookkeepers and the great industrial trusts and combines which depend for their strength upon the financial powers will be broken up. All the monopolies which, at present, bring such immense profit to their owners, will disappear. To revert to the language of an earlier time, Mr. Roosevelt's success means

that king and lieges united will make good servants out of the bad barons who now exploit the lieges. The skilled engineers, the high craftsmen, the leaders of the husbandmen, the artists—these are the new nobles; history warns that the besetting temptation of noblemen is to throw off the yoke of service and use their knowledge and capacity to exploit the people. In the old time the Christian king, as their father, guaranteed his people against that danger. Names have been changed since then but not principles, which are immutable. First among these principles is the necessity that the leader shall love the people. He cannot be the leader of a party or a class, a baron of barons, a rich man's friend, for such are ever the support and comfort of the masters of irreplaceable treasure-money. Again, the people must love the leader. It was the American people which prepared the way for Mr. Roosevelt; only that people can sustain him and secure his victory. It follows that every man's knowledge and every man's readiness to sacrifice himself for the good of his fellows is the indispensable guarantee of the future.

The old Christendom was built on the Christian faith and the Christian law of love; the new Christendom can know no other

foundations. Neither replaceable money nor the most adroit leadership, supported by the closest contact (by wireless talks or otherwise) with the people can possibly prevail against the greed which is in every man's heart unless every man holds in his heart also the love that, according to the revelation of Christ, is God Himself.

Paternal leadership and replaceable money are organs of that Christian civilization which was dead and is alive again. Without Christianity they cannot endure. Nor can liberty nor true democracy be attained without these organs, seeing that a liberty which does not include the liberty to eat is slavery in disguise.

"Leadership," Mr. Roosevelt declared in October, 1933, "I have tried to give; but the great and most important fact has been the response—the whole-hearted response—of America. We have recaptured and rekindled our pioneering spirit. We have insisted that this shall always be a spirit of justice, a spirit of team work, a spirit of sacrifice, and above all, a spirit of neighbourliness. . . .

"The people of the United States still recognize, and I believe recognize with firmer faith than ever before, that spiritual values count in the long run more than

material values. Those who have sought by edict to eliminate the right of mankind to believe in God and to practise that belief have, in every case, discovered sooner or later that they are tilting in vain against an inherent, essential, undying quality and indeed necessity of the human race—a quality and necessity which, in every century, have proved an essential to permanent progress. . . .

"I can never express in words what the loyalty and trust of the Nation have meant to me. Not for a moment have I doubted that we would climb out of the valley of gloom. Always have I been certain that we should conquer because the spirit of America springs from faith—faith in the beloved institutions of our land and a true and abiding faith in the divine guidance of God."